

National Security Research Division

# GREECE'S NEW GEOPOLITICS



IAN O. LESSER  
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Supported by the Kokkalis Foundation

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## PREFACE

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Greece has been profoundly affected by recent changes in the international environment, on its borders, and within the country itself. Many long-standing assumptions about Greek interests and Greece's role have fallen away and have been supplanted by new approaches. The country has become progressively more modern and more European, and its international policy has become more sophisticated. At the same time, the geopolitical scene has evolved in ways that present new challenges and new opportunities for Athens in its relations with Europe, the United States, and neighboring countries. Many of these challenges cross traditional regional boundaries and underscore Greece's potential to play a transregional role, looking outward from Europe to the Mediterranean, Eurasia, and the Middle East.

This report explores the new geopolitical environment Greece faces, paying special attention to the implications for southeastern Europe and transatlantic relations. The report also explores options for Greek strategy and offers some new directions for policy in Greece and on both sides of the Atlantic.

The study was prepared for and conducted with the generous support of the Kokkalis Foundation and builds on extensive discussions with policymakers and expert observers, including roundtables in the U.S. and Greece and a major international conference held in Athens from November 30–December 2, 2000. The research was undertaken within the International Security and Defense Policy Center of RAND's National Security Research Division and with the cooperation of RAND Europe.



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## SUMMARY

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In recent years, few countries have seen as much change, and as much turbulence in neighboring regions, as Greece. Greece's international perceptions and external policies have changed in important ways that reflect developments in the geopolitical environment, on Greece's borders and further afield. These changes also reflect trends in Greek society and the economic and political imperatives of an increasingly European policy outlook. The foreign and security policy demands on the country have increased, but overall, Greece has far greater strategic weight and freedom of action today than it did a decade ago. This study assesses some of the leading areas of change in the environment Greece now faces and the implications for Greece's new geopolitical role.

### THE NEW STRATEGIC ENVIRONMENT

The Greek strategic environment is increasingly complex and is characterized by a range of hard and soft security issues, many of which cut across traditional regional lines and underscore Greece's position as a "transregional" actor. A key trend in this environment has been the end of southern European and Mediterranean marginalization, which had been the condition prevalent for much of the Cold War. Successive crises in the Balkans and the Middle East have made this clear. Evolving European Union (EU) and North Atlantic Treaty Organization (NATO) strategies reflect the primacy of concerns about stability and development on the European periphery. Greece, integrated into key Western institutions, looks toward the Balkans and across the Black Sea and the Mediterranean to areas

where institutions are weak or nonexistent and where there are few functioning security arrangements. Many of the most pressing issues, from the proliferation of longer-range weapons to transnational crime and refugee flows, cannot be addressed effectively on a purely national basis.

Against this background, the progressive "Europeanization" of Greece and Greek policy is a transforming development. Virtually all of Greece's external policy challenges, including the strategic relationship with Turkey, have now been placed in a multilateral, European frame. Greek-Turkish détente, the strategic choice for all sides, remains fragile. That said, the fact that confrontation with Turkey can no longer be considered a permanently operating factor in the Greek environment is a critical change. The prospects for this détente will depend in large measure on the evolution of wider EU-Turkish relations in the post-Helsinki summit environment. Overall, the European orientation confers great advantages. The renationalization of Greek policy in most areas would be costly, damaging, and perhaps impossible. Greek entry into the European Monetary Union strongly reinforces this reality.

Just as Greece looks to Europe, Europe is set to develop a more active and independent role in foreign and security policy and in defense. The effects of this will be felt first and foremost in Europe's south—that is, in the Greek neighborhood. Continued turmoil in the Middle East could fuel this trend and increase the European and Greek stake in the evolution of Arab-Israeli relations. The emerging environment is likely to be more balanced in Euro-Atlantic terms. This should also help further normalize Greek-U.S. relations. A more European frame for cooperation with Washington will lend stability to the bilateral relationship and will increase the Greek stake in the smooth evolution of transatlantic relations.

## **BALKAN SECURITY AND GREECE**

Creating a stable order in the Balkans will remain a major challenge for Greece and its Western partners in the coming decades. There have been a number of positive developments since the end of the conflict in Kosovo, above all the change of regimes in Croatia and Serbia. But the potential for upheaval and conflict remains. Beyond the proximate problem of building a stable order in Kosovo and

containing instability in the Former Yugoslav Republic of Macedonia (FYROM), structural problems—economic underdevelopment, lack of strong democratic institutions, weak civil societies, resentful and restless minorities, widespread corruption, and growing criminalization—pose serious threats to stability in the region.

Renewed unrest in the Balkans would have a direct effect on Greek security and prosperity, disrupting regional trade and increasing refugee pressures. Relations with Greece's Balkan neighbors, and with Western allies, could come under strain. Despite the generally cooperative approach Athens and Ankara have taken in the region, the promising rapprochement with Ankara could also be placed in jeopardy.

Over the last decades, Greece has played an active role in promoting stability in the Balkans. The disintegration of Yugoslavia interrupted this process, but since the mid-1990s, Greece has again been at the center of cooperative efforts in the region. Greek relations with FYROM and Albania, in particular, have improved markedly. Milosevic's defeat has changed the dynamics of Balkan politics and has opened new prospects for regional stability. Greece has the political credibility and commercial ties to play a key role in the reconstruction and reintegration of Serbia. Other priorities for Greek policy toward the region include the preservation of an independent and democratic FYROM, economic and political reform in Albania, and cooperation with Europe and the United States in promoting a satisfactory resolution of the Kosovo issue. Autonomy is unlikely to prove a viable long-term solution for Kosovo, but self-determination should be contingent on absolute commitments with regard to the territorial integrity of neighbors.

Greece will have a strong stake in assuring that its EU partners do not fall prey to "Balkan fatigue" and needs to work closely with members, such as Italy and Austria, that have a similarly strong stake in Balkan stability to help forge a more coherent EU policy toward the region. Athens will also need to contend with likely pressures for a reduced American role in the Balkans. Such a development would be corrosive of European security and transatlantic relations and would have a negative effect on Greek security interests.

## INFRASTRUCTURE DEVELOPMENT IN AND AROUND SOUTHEASTERN EUROPE

Southeastern Europe has been the focus of extensive international efforts to rebuild and upgrade infrastructure. In the wake of the Kosovo conflict, the scope and pace of these plans have increased under the umbrella of the Stability Pact; numerous transportation, energy, and telecommunications projects are under examination or under way. Looking further afield, energy and nonenergy projects from the Adriatic to the Caspian and the Middle East will also have implications for the Greek environment. The implementation of even a limited range of the schemes now under consideration is likely to have a substantial influence on the political economy of the region, as well as important implications for Western policy and for Greek interests in southeastern Europe and the eastern Mediterranean.

Greece and the region will benefit from the net increase in complexity, capacity, and redundancy in regional infrastructure. It will reduce the political risk exposure of trade links and energy flows within the region and between the region and European markets. It will also facilitate economic reconstruction and the normalization of Balkan societies after a decade of crisis and disruption. In general, the integrative and stabilizing effects of new infrastructure projects are likely to be more significant than the competitive, "Great Game" dimensions of these schemes. The risks of duplication are limited and are largely confined to specific projects. Moreover, energy and nonenergy projects can help consolidate and extend Greece's improved relations with Turkey, Albania, and FYROM. Given its geographic location and traditionally central place in regional transport, a reintegrating Serbia will properly have a prominent place in regional reconstruction efforts. That said, some of the region's most pressing long-term infrastructure needs are elsewhere, as in the case of transportation routes in Albania, Bulgaria, Romania, and FYROM—and Serbia's participation in regional projects will not greatly diminish their economic rationale.

The role of the private sector and markets will be central. Infrastructure discussions are often framed in state and interstate terms. But the role of states in setting regional infrastructure policy is likely to change—and in many ways be weakened—over time, with the pro-



gressive liberalization and deregulation of energy, telecommunications, and other sectors. Similarly, the resources for regional projects, whether in southeastern Europe, the Black Sea, or the Caspian, will come largely from commercial sources. In this setting, economic return will be the key determinant of infrastructure choices.

## CONCLUSIONS AND POLICY IMPLICATIONS

In sum, four factors heavily influence the Greek role: (1) the new centrality of areas adjacent to Greece in the Western security calculus; (2) the transformation of key relationships—with Europe, Turkey, and the United States; (3) new regional dynamics in the Balkans, the Middle East, and Eurasia; and (4) the phenomenon of globalization and the rise of transregional issues. In terms of “grand strategy,” Greece has made some firm choices over the past few years that have altered the tone of its foreign policy debate and strategic culture.

This analysis suggests some policy priorities and directions for Greece and its partners:

- Consolidate and deepen Greece’s European integration—a key enabling element for Greek policy across a range of issues.
- Give priority to the reconstruction and stabilization of southeastern Europe—an area with the most direct consequences for Greek prosperity and security over the next decade.
- Reinforce the critical but fragile Greek-Turkish détente—and support the processes of Turkish economic recovery and Turkish-EU convergence on which the longer-term prospects for détente depend.
- Strengthen the national bases for Greek-Turkish rapprochement, and implement confidence-building and risk-reduction measures—as a hedge against the vagaries of Turkish-EU relations and to prevent a return to brinkmanship.
- Fashion a more active role for Greece in the eastern Mediterranean and the Middle East—areas where the Greek stakes are pronounced but engagement has been relatively limited.
- Refocus the bilateral relationship with the United States to address regional and transregional issues of shared concern.

Beyond traditional bilateral issues, a central question for Athens will be the degree and character of American engagement in Europe and on its periphery and how Greece, with its growing political and economic ties, can work with Washington to modernize and stabilize societies in the Balkans, around the Black Sea, and in the Middle East.

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The book is dedicated to the memory of Spiros Philippas, who as Greek and Academic Affairs Liaison Officer on the NATO International Staff suggested this study and played a crucial role in making it possible.

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## ABBREVIATIONS

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AMBO	Albania-Macedonia-Bulgaria Oil Corporation
BSEC	Black Sea Economic Cooperation
BTA	Bulgarian news agency
CFSP	Common Foreign and Security Policy
CTPL	Constanta-to-Trieste Pipeline
DOS	Democratic Opposition of Serbia
DPA	Democratic Party of Albanians
EIA	Energy Information Administration
EIB	European Investment Bank
EIU	Economist Intelligence Unit
EMU	European Monetary Union
ENEL	Ente Nazionale per l'Energia Elettrica (Italy)
ENI	Italian energy provider
EU	European Union
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
ICG	International Crisis Group
KLA	Kosovo Liberation Army
KPN	A telecommunications provider (the Netherlands)

LDK	Democratic League of Kosovo
NATO	North Atlantic Treaty Organization
NDP	National Democratic Party
OTE	Hellenic Telecommunications
PDK	Democratic Party of Kosovo
PDP	Party for Democratic Prosperity
RFE/RL	<i>RFE/RL Newsline</i>
SAA	Stabilization and Association Agreements
TCP	Trans-Caspian Pipeline

Greece has entered the 21st century with an increasingly modern and prosperous society, a more moderate political scene, and a more complex and cooperative set of international relationships. In nearly every respect, the country is more deeply integrated in Europe and closer to the European mainstream than many observers could have imagined a decade ago. In this respect, Greece has followed a pattern evident across southern Europe since the end of the Cold War. It is also a pattern that has largely eluded Greece's own neighbors in southeastern Europe and across the Aegean—although here, too, there are now important signs of change.

After decades of economic uncertainty and political turmoil, coupled with an enigmatic and eccentric foreign policy that complicated relations with Europe and Washington, Greece appears transformed on many fronts. Athens has become a member of the European Monetary Union (EMU), confounding skeptics. The European Union's (EU's) December 1999 Helsinki Summit confirmed a strategic shift in Athens' approach to its long-standing adversary, Turkey, and Aegean détente continues to evolve. Even in the wake of the North Atlantic Treaty Organization (NATO) intervention in Kosovo—highly unpopular in Greece—relations with the Alliance and with Washington have probably never been stronger. Traditionally tense relations with Balkan neighbors, especially the Former Yugoslav Republic of Macedonia (FYROM), have improved dramatically, and Athens has remained relatively insulated from conflicts affecting the Levant and the Middle East. The country has been chosen to host the 2004 Olympics, a significant—if stressful—opportunity to raise Greece's international profile.

A striking feature of these changes is that they have not ended the internal and external debates about the future of Greece and its foreign policy orientation. This continued uncertainty has several sources that, combined, produce considerable unease about whether Greece can successfully consolidate and extend the changes of the past decade or whether challenges in the internal and external environment will make this difficult. The Europeanization of public tastes and preferences on a day-to-day basis, apparent to any observer of the Greek scene, appears well entrenched. But the social and political cohesion that has allowed recent Greek governments to bring the country into line with European economic patterns cannot be taken for granted and may be highly dependent on economic realities beyond control from Athens. Indeed, membership in EMU almost certainly deepens Greek exposure to the consequences of policies set at the European level, not to mention the vagaries of global financial trends. Greece is, of course, not alone in facing this challenge, which it shares with Europe as a whole and the smaller members of EMU in particular. But the situation raises the important question of how much freedom of action Athens will have in setting both domestic and foreign policies in the future.

Uncertainties also abound on the regional scene. One of the most remarkable and positive developments of the past few years has been the Greek ability to pursue a multilateral foreign policy in southeastern Europe and to maintain prosperity and stability in the face of conflict and destructive nationalism in the immediate environment. It is notable that, since the breakup of Yugoslavia, American and European policymakers have repeatedly expressed concern about the potential for Greece and Turkey to be caught up in the pattern of Balkan conflict. Certainly, for Washington, the risk of a Greek-Turkish confrontation as a spillover of Balkan wars served to underline the importance of policy choices vis-à-vis crises in Bosnia; Kosovo; and, most recently, FYROM. In the event, both Athens and Ankara adopted a moderate, cooperative stance in the Balkans—perhaps out of recognition of the depth of Balkan risks. With leadership changes in Belgrade and elsewhere in the region, the risks of further conflicts affecting Greek interests have been reduced but not eliminated. Athens remains highly exposed to the political, economic, and security consequences of conflict and chaos in southeastern Europe. At the same time, the stabilization and reconstruction of the region, including the development of new infrastructure



projects and lines of communication, offer considerable opportunities for Greek diplomacy and business. Under the right circumstances, Athens could emerge as the leading Western actor in southeastern Europe and is already playing this role in some areas. This study emphasizes and assesses the extraordinary Greek stake in the future stability of its Balkan hinterland, not least, because conditions in the region will strongly affect Greece's ability to meet policy objectives in Europe and across the Atlantic.

Greek-Turkish détente has been emblematic of the "new look" in Greek policy, and the future of this relationship will have important implications for the success of Greek foreign policy as a whole. It could also have important consequences for the country's internal evolution. As our analysis will suggest, the recent changes in Greek-Turkish relations are strategic, even "grand strategic" in nature, and not simply tactical. Although considerable potential remains for a deterioration, or perhaps more likely, stagnation, in relations with Ankara, the risk of conflict is now much reduced. The development of a truly cooperative relationship between Athens and Ankara would contribute to security and development across southeastern Europe and the eastern Mediterranean and would greatly facilitate both EU and American policy toward Athens and the region. Yet, Greek and European policies toward Turkey are inextricably linked in the wake of the Helsinki summit decisions. The prospects for Greek-Turkish détente and the success of Athens' own policy toward Ankara now depend heavily on the positive evolution of relations between Turkey and the EU. The outlook may also be affected by Turkey's economic travails and the implications for Turkey's political future.

Events since the crisis in Bosnia have naturally focused attention on Greece in southeastern Europe. But Greece has always been confronted with challenges and opportunities emanating from a wider region, encompassing the Mediterranean, Eurasia, and the Middle East. New infrastructure proposals, especially oil and gas pipelines and electric power grids, are the most tangible facet of this wider environment. The southeastern energy route to European markets is developing rapidly, with potentially important implications for regional geopolitics. Under favorable political conditions in the Middle East, sadly more remote today than at the end of the 1990s, it would be possible to drive from Paris to Cairo, and even to Morocco from the east, in an almost complete circuit of the Mediterranean.

Greece is at the center of this integrative potential. Much will depend on whether the Middle East peace process can be revived. Here too, Greece has a potentially important role to play as the EU country geographically closest to the Arab-Israeli conflict. With traditional approaches to the peace process under great stress, new forums and new regional interlocutors may be able to play a more active and useful role.

Greece is also exposed to the negative aspects of an increasingly transregional environment, including refugee flows, cross-border crime, the growing reach of ballistic missiles deployed in the Middle East and around the Mediterranean, terrorism, and spillovers of political violence. It is very likely that these transregional issues will occupy an increasing amount of Greek diplomatic energy over the next decade and will be higher on the agenda in Greek relations with Europe, Russia, and the United States. These challenges may also be a focal point for new efforts at regional security cooperation among Greece, Turkey, Israel, Jordan, and possibly Egypt; these efforts can be linked to existing bilateral cooperation with the United States and NATO allies.

Greece will have an important stake in the evolution of European and Euro-Atlantic institutions and policies, a stake the process of Greek convergence and integration will reinforce. It is quite likely that both the EU and NATO will change in significant ways over the next decade and that transatlantic relations may be redefined, with direct and indirect implications for Greek interests and the Greek role in regional and international affairs. The potential for a serious and more independent European foreign and security policy is among the most significant of these looming changes. Whatever the ultimate form of European defense efforts, many of the leading contingencies will be on or around Greece's borders, in southeastern Europe and in the Mediterranean. For this reason alone, Greece will be among the countries most strongly affected by the shape of emerging EU initiatives in the fields of foreign policy and defense.

These developments will, in turn, be an important engine of change in the relationship between Athens and Washington. The bilateral relationship has already experienced substantial and positive change. Many observers correctly describe the prevailing relationship as "normalized." Certainly, it is now less strained and unstable, largely as a result of Greece's progressive Europeanization and the

effect of this on perceptions on all sides. The prospects for the consolidation and extension of the recent changes in Greek foreign policy, the outlook for U.S. engagement in areas of concern to Athens, and the scope for diversification in a relationship that has been heavily security oriented will be key variables for the future.

Finally, beyond regional and transregional questions, Greece faces the common challenge of “globalization”—however this term is interpreted. Like the rest of Europe, Greece confronts issues of competitiveness and identity, especially in relations with the United States. With other societies in southern Europe and around the Mediterranean, Greece faces the narrower but important question of whether small states, with highly individualistic political and business cultures, are at an advantage or disadvantage in a globalized environment. Globalization, especially in its information dimensions, can also be an important stimulus to the expansion of private and civil society organizations in Greece. The development of these organizations can, in turn, offer new avenues for Greek engagement on the international scene (see Vlachos-Dengler, 2001). Non-government actors—whether businesses, civic organizations or educational and research institutions—are especially important vehicles for exercising what Joseph S. Nye, Jr., has described as “soft power.” Greece has many soft power assets—forms of influence based on persuasion rather than coercion—that can contribute to shaping and stabilizing its geopolitical environment.

## STRUCTURE OF THE REPORT

This report explores the contours of Greece’s new geopolitical environment and assesses the meaning for Greece and its international partners. What has changed? What is likely to change? What are Greece’s options, not just in response, but with the objective of shaping the geopolitical environment in a favorable manner?

Chapter Two surveys the new geopolitical environment with special attention to transregional trends and their implications for Greek interests and policies. The analysis examines issues in the immediate environment, including the Aegean and the eastern Mediterranean, but also looks beyond these traditional spheres to consider the meaning of developments further afield—in the Middle East, in

Eurasia, and in European and transatlantic settings. This chapter also takes up Greece's position in the globalization debate.

Chapter Three examines in greater detail the specific challenges and opportunities emanating from southeastern Europe. The analysis takes account of the most recent developments in Serbia and of prospective changes in European and U.S. policy toward the region. The chapter also discusses the complex of issues surrounding Balkan stabilization and reconstruction and points to areas in which Greece can play a particularly active and useful role.

Chapter Four explores the political economy of regional infrastructure developments—transportation, energy (electric power, gas and oil), and telecommunications—focusing on southeastern Europe but looking beyond to the implications of new projects from the Caspian to the Mediterranean and the Middle East. The analysis endeavors to go beyond the prevailing model of geopolitical competition in assessing alternative proposals and pays special attention to integrative and collaborative projects and, in each case, their policy implications.

Finally, Chapter Five offers overall observations, conclusions, and policy directions for Greece and its partners. Taken together, the policy options available to Greece, its European partners (including Turkey), and the United States have considerable potential to shape the geopolitical environment in positive ways and to hedge against unpredictable or unavoidable developments across rapidly changing regions. These conclusions and policy recommendations, indeed our entire analysis, are offered without a specific national perspective. To the extent possible, the study is intended as a view “from above”—or at least, as a synthesis of Greek, European, and American perspectives.

Although not a conference report in any formal sense, the report takes into account comments offered at discussion meetings in the United States and Greece, as well as during a major international conference held in Athens at the end of 2000. Our findings are based largely on the analyses offered in Chapters Two, Three, and Four, written respectively by Ian Lesser, F. Stephen Larrabee, and Michele Zanini, with contributions from Katia Vlachos-Dengler.

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**GREECE'S NEW STRATEGIC ENVIRONMENT**

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At the start of the 21st century, Greece's foreign and security policy horizons have expanded, and the country is more firmly in the European mainstream than ever before. Greece is actively engaged in the stabilization and reconstruction of southeastern Europe, relations with Turkey are much improved, and the bilateral relationship with the United States has been normalized in key respects. The continued evolution of Greek society and the country's foreign policy debate will exert a strong influence on Greece's international policies and potential in the coming years.<sup>1</sup> At the same time, the regions surrounding Greece, as well as the international system, are undergoing rapid change. New, nontraditional issues, including spillovers of political violence, refugee movements, and the spread of highly destructive longer-range weapons, have come to the fore.<sup>2</sup> These changes in the geopolitical environment will have pronounced implications for the types of challenges and opportunities that Greece will confront in the coming years. The effect of developments in adjacent regions, such as the Balkans and Aegean, is especially clear. But the area of strategic consequence for Greece—the Greek strategic “space”—is far wider, encompassing Europe, Eurasia, the Middle East, and the Mediterranean, as well as transatlantic rela-

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<sup>1</sup>See, for example, Keridis (2000). The domestic factor in Greek foreign policy is treated from differing perspectives, and from a “pre-Helsinki” environment, in contributions by George Papandreou, Kostas Karamanlis, Dimitri Consta, and Ioannis Tzounis, in Pfaltzgraff and Dimitris (1997). For an analysis of the role of personality, public opinion, and bureaucracy in Greek policymaking, see Ioakimidis (1999).

<sup>2</sup>The effect of more comprehensive definitions of security on Greek perceptions is addressed in Prodromou (1997).

tions. At the broadest level, Greece will also be affected by the complex of trends described as "globalization."

This chapter assesses the leading areas of change in Greece's geopolitical environment and their meaning for Greek and international policy. Regional developments are explored, but the emphasis is on new functional issues, from energy to proliferation, many of which cut across traditional regional lines. The analysis concludes with a discussion of overall observations and policy approaches for Greece and its partners.

The picture that emerges is one of growing complexity, diverse risks, and equally diverse opportunities. The new strategic environment also suggests that some traditional measures of Greek interest need to be reassessed, with new attention on areas of comparative advantage for Athens in its international policy. Overall, the evolution of the geopolitical environment, in the widest sense, will help determine what Greece will want and be able to achieve on the international scene in the coming years.

## A TRANSREGIONAL ENVIRONMENT

Western strategists have tended to draw sharp geographic distinctions between regions in security terms. Europe, Eurasia, and the Middle East have been intellectually and bureaucratically separate spheres for analysis and policymaking. In fact, this tradition of regional definition and separation is very old and has had many adjustments. Before the term "Middle East" became popular, observers spoke of the Near East and the Orient, and in popular conception, the Orient began in the Balkans. Indeed, for almost a millennium, regional definitions, especially the perceived line between "east" and "west," were driven by the ebb and flow of the Ottoman Empire.<sup>3</sup> As the debates over EU enlargement and the role of Turkey make clear, these questions of regional definition are still very much alive—and in flux.

<sup>3</sup>On the intellectual debate over regional dividing lines in perceptions and policies, see Hentsch (1992), Lewis (1982), Lewis and Wigen (1997), Demko and Wood (1994), and Taylor (1994). The classic statement of the Mediterranean as an example of regional interdependence, with much modern relevance, is Braudel (1972), which was first published in 1949.

Beyond questions of identity and perception, the contemporary strategic environment is characterized by a series of functional issues that cut across traditional geographic lines and make rigid definitions of regional security less and less relevant.<sup>4</sup> The result is not necessarily the “end of geography” but, at a minimum, a much greater degree of regional interdependence.<sup>5</sup> Given the nature of developments spanning Europe, the Middle East, and Eurasia, Greece is at the center of this phenomenon and will be strongly affected by it. A number of political, economic, and security issues are emblematic of this new transregional environment.

### The Political Dimension

At the political level, regional policies and perceptions are increasingly interdependent. Successive crises affecting Muslim communities in the Balkans, whether in Bosnia, Kosovo, or elsewhere, have had a strong influence on perceptions in the Arab world, including parts of the eastern Mediterranean. In these cases, perceived Western inaction had a very negative effect on Middle Eastern attitudes, especially toward Europe. A similar effect on public opinion could be seen as a result of the conflicts in Chechnya. Greece and its partners are thus exposed to the potentially damaging consequences of policies pursued in quite disparate regions.

These linkages and interactions have been reinforced by the emergence of new political relationships around the eastern Mediterranean, including expanded cooperation among Israel, Jordan, and Turkey. The Turkish-Israeli relationship, in particular, is an example of the sort of new strategic geometry that has arisen in the post-Cold War era. This relationship has diplomatic, commercial, and defense dimensions. To the extent that the relationship is “strategic,” it has affected, above all, the Syrian position vis-à-vis both countries. The relationship has given Ankara additional weight in dealing with Damascus and probably contributed to the credibility of Turkish pressure over Syrian support for the Kurdish Workers’ Party.

<sup>4</sup>Trends in these areas are surveyed in National Intelligence Council (2000).

<sup>5</sup>I am grateful to Alvaro Vasconcelos of the Institute for International and Strategic Studies in Lisbon for this intriguing variation on Francis Fukuyama’s formulation.

More broadly, Turkish relations with Israel (and Jordan) provide an indirect but important link to Euro-Atlantic security arrangements, a link that is likely to gain in significance as NATO takes greater account of Mediterranean and Middle Eastern issues. At the same time, initiatives that span the European and Middle Eastern environments can be interrupted by adverse developments in either sphere. This risk exists in the case of Turkish-Israeli relations against a background of renewed Arab-Israeli tension over Palestinian issues. This changed environment may not directly affect bilateral defense cooperation, but public opinion and public diplomacy in the context of the relationship could become more difficult. If the deterioration in Arab-Israeli relations continues, and with Turkish-Syrian relations generally improved, the relationship between Israel and Turkey could well stall. Economic stringency in Turkey could also play a role in this regard in Turkish-Israeli relations, given the weight of economic cooperation, including defense-industrial trade.

Cyprus offers another example of transregional political linkage, with more direct implications for Greece. It is arguable that the rapid deterioration of intercommunal relations in Bosnia and elsewhere in the Balkans in the early to mid-1990s had a chilling effect on the views of moderates on both sides of the island. Although the possible parameters of a settlement were understood and heavily debated, the example of Bosnia renewed concerns about security arrangements and offered a discouraging example of how international involvement might not be enough to guarantee the stability of a settlement. Similarly, the idea (sometimes expressed in Washington) that a comprehensive peace in the Middle East could show the way for a Cyprus settlement takes on new and more negative implications if a Middle East settlement proves illusive. Moreover, an atmosphere of tension in the Levant could have unpredictable consequences for European and transatlantic approaches to Cyprus and perhaps even for Greek-Turkish relations. Regional instability might increase the Western stake in a stable eastern Mediterranean but could also encourage a more arms-length approach to a difficult region and could dilute the energy available for new diplomatic initiatives. In general, Greek policymakers will need to take account of a much broader range of influences on issues that have traditionally absorbed attention.



## The Economic Dimension

Important transregional developments are no less evident in the economic arena. Two issues are of special significance for Greece. First, the EU stands at a crossroads in its policy toward nonmember partners in the Mediterranean and the Middle East. Along with the rest of southern Europe, Greece has a strong stake in the stability and prosperity of societies along the southern shores of the Mediterranean and in the viability of the EU's Barcelona Process—in effect, an attempt to subsidize stability in the poor and increasingly populous states on Europe's southern periphery.<sup>6</sup> The Greek stake in this regard is underscored by the tendency of the Schengen agreement to shift the burden of immigration and other border-control responsibilities to southern European members. In the perception of many observers, the Barcelona process is proving ineffective. The resources devoted to aid and investment in the Euro-Mediterranean Partnership are small relative to allocations elsewhere (e.g., for Eastern Europe and the Balkans), certainly relative to the scale of requirements in the south. In any case, very little of the funds available have actually been distributed, a result of cumbersome procedures in Brussels and a lack of promising project proposals.

The evolution of economic relations between such countries as Egypt, Libya, and Algeria (not to mention Turkey) and the EU will be critical in the future development of these societies and will have a marked effect on the outlook for stability in the region as a whole. In this context, Athens faces an especially difficult dilemma, given Greece's natural interest in southeastern European reconstruction, an expensive project that will likely further constrain the resources available to support the Barcelona process. On balance, Greece has a stronger and more direct interest in the stability and prosperity of the Balkans, but Athens will retain a significant, secondary stake in the progress of EU policy to the south.

Second, and more dramatically, the strategic environment around Greece is being shaped by the development of new lines of commu-

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<sup>6</sup>For a comprehensive treatment of the Barcelona Process and related issues, see Joffe (1999).

nication for energy and for nonenergy infrastructure projects.<sup>7</sup> Since the 1940s, transregional communications have faced important structural restrictions imposed by Cold War realities, the Arab-Israeli conflict, and lack of development—and more recently, conflict—in key transit regions, such as the Balkans and the Caucasus. Many, but by no means all, of these constraints have fallen away in recent years, and it is now possible to envision a far more complex and interdependent network of transport and communications from the Adriatic to Central Asia and across the Mediterranean. If even a fraction of the new road, rail, pipeline, and electric power transmission schemes currently proposed actually come to fruition, the geopolitical scene around Greece will be transformed in important ways.

Greek businesses can be important players in regional infrastructure projects, and these commercial stakes can affect political relationships around the Balkans, the Black Sea, and elsewhere. A more diverse road, rail, and port network could reduce Greek exposure to disruptions in transport to Europe. Greece itself could become a more significant conduit and entrepot between Europe, Eurasia, and the Middle East. Perhaps most important, major new infrastructure projects (and the choices they represent) can influence the propensity for conflict and cooperation in adjacent regions. The debate over competing routes for Caspian oil has encouraged a “great game” view of infrastructure developments. But in reality, new pipelines—regardless of the route—will foster a more interdependent set of relationships, spanning regions. These links are just as likely to be focal points for cooperation rather than the stakes of conflict. Supply and transit relationships, once established, will be difficult to break, and the degree of shared economic interest will be high.<sup>8</sup>

The proliferation of transport routes for natural gas around Eurasia, the Middle East, and the Mediterranean, although less fashionable than the debate surrounding Caspian oil, could prove even more important for the longer-term evolution of the strategic environment. Unlike oil, gas is a regional rather than a global commodity, often with an expensive and fixed infrastructure for supply. As a result, the dependence on specific producer-consumer relationships

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<sup>7</sup>These issues are treated in detail in Chapter Four.

<sup>8</sup>See Chapter Four.

is more structural and pronounced. Gas is also an increasingly popular fuel and is not amenable to substitution, at least in the short term. The European dependence on gas imports from North Africa has grown substantially in the past decade, encouraged by the construction of new pipelines across the Mediterranean. Greece, too, is set to import significant amounts of liquefied natural gas from Algeria, and a pipeline across the Adriatic linking Greece to existing North African gas networks is under discussion.

Europe has long imported large quantities of gas from Russia. Over the next decade, southeastern Europe and the eastern Mediterranean are expected to emerge as an important new avenue for importing gas into Europe, and such countries as Egypt and Syria will be important producers in their own right. Commercially viable petroleum deposits have also been found off of Israel and Gaza, although their exploitation would depend on favorable political conditions (Orme, 2000). These developments are likely to influence the way the West thinks about energy security. Europe, in particular, may focus more on the Caspian, the Black Sea, and North Africa and less on the Gulf. Coupled with a more active European foreign and security policy, this could mean that energy security questions in Greece's neighborhood will receive greater attention from government and the private sector.

### **The Security Dimension**

Third, nontraditional security issues are characteristic of the new strategic environment, and many of these issues are strongly trans-regional: They cross regional lines, and many can only be addressed effectively on a transnational basis. Increased energy flows of all sorts through the Aegean, the eastern Mediterranean, and the Adriatic could raise important environmental issues for Greece and other regional states. No single state alone can easily address the costly planning and crisis-management issues associated with heightened environmental risks, increasing the incentive for regional cooperation, coordination, and funding.

Alarmist predictions about large-scale migration from south to north across the Mediterranean, common in analyses of the strategic environment in the 1980s and 1990s, have proven unfounded. In the western Mediterranean, southern Europe does face a stressful social

problem from migration from Africa and elsewhere, but the scale has been limited. At the same time, more serious migration issues have arisen in the eastern Mediterranean and southeastern Europe, affecting Greece, Turkey, and the Adriatic region. Indeed, Greece offers the most dramatic example of the challenges economic migration within the region has posed. Greece alone has absorbed perhaps 300,000 Albanian immigrants in recent years, as well as large numbers of migrants and asylum seekers from elsewhere in the region and from the Middle East.<sup>9</sup> Estimates of the net increase in Greece's population as a result of these movements range from 500,000 to nearly 1 million people. This influx has strained the country's social welfare system and has emerged as a leading factor in popular perceptions about security. In general, Greece has avoided the very highly charged debate about immigration evident in other EU states, but the issue is clearly part of today's security perceptions and the security agenda as seen from Athens.

Beyond the accommodation of economic migration, societies around the Balkans and the eastern Mediterranean are experiencing rapid, sometimes violent, change, with the potential for sudden and disastrous refugee movements. The last 10 to 15 years have seen dramatic examples of this phenomenon, including the massive exodus of ethnic Turks from Bulgaria (many have since returned), sporadic large-scale movements from Albania to Italy, the flow of Kurds from southeastern Turkey and northern Iraq, and the exodus from Bosnia and, more recently, Kosovo. Turmoil in Egypt might also generate large refugee flows affecting Greece and the region, although the failure of such migration to materialize from the Algerian crisis suggests that neighboring countries in North Africa, rather than southern Europe, would face a larger refugee burden than Europe.

Partly as a result of growing crime rates, often linked to migration in the public debate, personal security has emerged as an important issue in Greece's region. The cross-border challenges in this area range from problems of petty crime to drug trafficking, refugee smuggling, and such more-exotic activities as the smuggling of arms

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<sup>9</sup>At points during the 1990s, this number may have been as high as 500,000 (Ministry of Press and Mass Media, 1999, p. 3).

and nuclear material, with direct security implications (see Politi, 1997). The growth of a transregional illegal sector around the Adriatic, in the Balkans, in the Caucasus, and in the Middle East is also having serious consequences for diplomatic and security relations.<sup>10</sup> As an example, the fact that a very large percentage of the drugs entering Europe arrive via Turkey inevitably affects the discourse between Ankara and key European states, and this issue is likely to become even more prominent to the extent that Turkey's EU candidacy progresses. Money laundering linked to transnational organized crime is another facet of this problem affecting Greece, Turkey, Cyprus, Israel, and other states in the eastern Mediterranean.

Regional conflicts, as in Bosnia, Kosovo, and southeastern Turkey, can create conditions of "war economy" that encourage the spread of organized crime and violence and may defy political resolution.<sup>11</sup> Economic sanctions, imposed unilaterally or by the international community, can also have the unintended consequence of fueling black markets and the illegal sector, even beyond the borders of the targeted state. The international sanctions on Serbia, together with the disruption of normal transport routes, clearly had this effect on neighboring countries in the 1990s. Further afield, in the Caucasus and Central Asia and in parts of the Middle East and Africa, persistent "zones of chaos" (e.g., Chechnya, Afghanistan, Sudan) can affect global security by providing a congenial environment for illegal and terrorist networks.

In the realm of "hard security" issues, Greece and its international partners face the challenges of terrorism, spillovers of political violence, and the proliferation of weapons of mass destruction (WMD) and the means for their delivery at long ranges. These inherently transregional problems will require transregional approaches.

The question of terrorism has remained a neuralgic issue, especially in Greek-U.S. relations, because of the persistence of left-wing terrorism in Greece. The activities of the November 17 group have been especially controversial. This group has killed some 23 people since

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<sup>10</sup>The inherently transnational nature of these problems is highlighted in Chrysochoidis (2000).

<sup>11</sup>The propensity for illegal activity to interact with political crises is discussed in Politi (1999), pp. 49–58.

1975, including five U.S. embassy employees. In all likelihood, November 17 is a very small network of individuals—perhaps a dozen activists—and the organization represents a type of violence that is an anachronism given the changing face of modern terrorism. Some features of international terrorism as it has evolved over the last decade, often described as the “new terrorism,” are at variance with the actions of November 17. The new terrorism tends to be characterized by increased lethality (e.g., large-scale bombings), anonymous actions, network forms of organization (rather than hierarchies), and systemic or religious rather than political motivations.<sup>12</sup> In this context, November 17 is very much an example of an older pattern of terrorism common across Europe in the 1970s (e.g., the Red Brigades in Italy, the Bader-Meinhoff group in Germany, Action Direct in France). Greece is not alone in facing residual traditional terrorism, although other European examples such as ETA in Spain and the “Real IRA,” tend to have separatist agendas.

The June 2000 assassination of Brigadier Stephen Saunders, the British military attaché in Athens, against a background of criticism by Washington of perceived shortcomings in Greece's counterterrorism efforts, brought the issue of November 17 to the fore. By all accounts, counterterrorism cooperation between Greece and its European and American partners has become more active and effective in 2000.

Left-wing terrorism, and the potential for spillovers of terrorism centered elsewhere (as with the actions of Palestinian groups in the 1980s), may not pose a serious threat to Greek democracy and the stability of society as a whole but does effect the country's strategic interests in important ways. Terrorist activity, and even the perception of heightened risk, can affect tourism and investment and can distort key foreign relationships that should be focused on other matters. As Greece has moved more firmly into the European mainstream and as the EU has focused more heavily on “third pillar” issues, counterterrorism is increasingly a question of European, as well as national, policy. With the Athens Olympics in 2004 and the possibility of further deterioration in the political environment in the Middle East, terrorist risks have acquired additional significance.

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<sup>12</sup>These elements are discussed in Lesser et al. (1999).

The combination of a high-visibility international event; violent political movements with active grievances in adjacent regions, whether the Middle East or the Balkans; and the relatively unrestricted flow of people across borders suggests that this is a challenge Athens must take seriously. The changing nature of terrorism, in which the rise of loose networks makes intelligence-gathering and counterterrorism more difficult, also reinforces the need for a multi-lateral approach to the problem.

Greeks are often puzzled by the strength of the American reaction to international terrorism and the prominence given to the issue in bilateral relations as seen from Washington. American concern about the November 17 problem reflects the history of attacks on American citizens and property in Greece but also reflects post-Cold War American strategic culture. Few adversaries are capable of confronting the United States directly, and the United States enjoys a relatively high degree of security. The American security debate therefore increasingly focuses on the problem of "asymmetrical threats," those to U.S. territory (witness the debate over national missile defense) and to American interests abroad. Moreover, Europe, with its long experience of terrorism and counterterrorism, arguably has a higher tolerance for such risks. American policymakers and analysts generally perceive the Greek response to left-wing terrorism over the last two decades as inadequate. For example, there have, to date, been no convictions related to November 17 assassinations in Greece.

In short, for a variety of reasons, the issue of terrorism is likely to remain on the agenda in bilateral relations, and Greece should have a growing stake in more effective counterterrorism cooperation. Indeed, many more Greeks have been victims of terrorism in Greece than Americans, and Athens has much to lose even from the perception of being "soft" on this problem. The growth of counterterrorism cooperation between Greece and its EU partners can offer a useful and, in some cases, less politically charged vehicle for improving the Greece's ability to deal with terrorist challenges. But, with the generally positive evolution of Greek-U.S. relations in most areas, there is every reason to expect better bilateral cooperation against a wide range of terrorist risks.

Finally, the eastern Mediterranean region is exposed to risks associated with the spread of WMD—nuclear, chemical, biological, and

radiological—and the means for their delivery at long range. Indeed, proliferation, especially the proliferation of ballistic missiles, is likely to be one of the defining security challenges for Greece, Europe, and the United States over the next decade. Most of the world's leading proliferators are arrayed along an arc from South Asia to North Africa. Over the next decade, it is possible that one or more new nuclear weapon states may emerge in the Middle East.<sup>13</sup> In the same period, Europe will be increasingly exposed to ballistic missile systems with ranges over 1,000 km deployed in the Gulf, the Levant, and possibly North Africa.<sup>14</sup>

Even without the use of WMD, the presence of missile systems, as well as sophisticated aircraft, of trans-Mediterranean range can have a transforming effect on the strategic environment.<sup>15</sup> The ability of Middle Eastern states to reach European population centers means that Europe will be increasingly exposed to the retaliatory consequences of Western action anywhere in the region. Decisions about defense cooperation in crises will need to reflect issues of national vulnerability and may impose new costs for missile defense. To the extent that Europe as a whole becomes more active in the region through the EU Common Foreign and Security Policy (CFSP), this issue could arise even without American involvement. Political developments, including the deterioration in the Middle East peace process, and uncertainties regarding the future of Western relations with Russia, China, or North Korea could quicken the pace of regional proliferation.

For Greece, two issues associated with this climate of proliferation are worthy of special attention. First, there has been a tendency to view missile and WMD proliferation as essentially, "an American issue," a fashionable debate spurred by the fear that states in confrontations with the United States but unable to compete conven-

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<sup>13</sup>A recent report, citing Central Intelligence Agency assessments, does not rule out the possibility that Iran already possesses a nuclear capability. See Cambone (2000), p. 9.

<sup>14</sup>For recent assessments of missile and other proliferation risks, see Office of the Secretary of Defense (2001), National Intelligence Council (1999), and Steinberg (2000). See also Boyer et al. (1996) and Lesser and Tellis (1996).

<sup>15</sup>The use of ballistic missiles is not just a theoretical issue for the region, as the use of such systems in the Iran-Iraq war, the Gulf War, and the conflict in Yemen demonstrates.



tionally will turn to asymmetric strategies, using nontraditional means. There has also been a fear that the adversaries may, in some instances, be "crazy states," or even nonstate actors, who might use unconventional weapons irrationally.<sup>16</sup> The spread of technologies allowing longer-range missiles is already transforming this from an issue of concern for a limited number of front line states (e.g., Turkey, Israel) to one of concern for a larger number of southern European states (including Greece). It will, in short order, be a Europe-wide issue when Paris, Berlin, and London come within range of systems deployed in the Gulf and elsewhere. Proliferation is introducing new variables in relations between Europe and the Middle East, with the security of both regions now more closely linked, and in relations between Washington and European allies.

Second, although Greece clearly is not the target of regional proliferators (indeed, proliferation dynamics are largely south-south rather than north-south), Athens still needs to be concerned about the indirect effects of proliferation. Some implications for European and transatlantic policy have already been mentioned. Beyond these, there could be negative consequences for regional balances of obvious concern to Greece. For example, if Turkey were to face a nuclear-armed Iran, Iraq, or Syria on its borders, perhaps against a background of reduced confidence in the NATO security guarantee and greater instability in the Gulf, Turkey would have strong and understandable incentives to explore retaliatory capabilities of its own (these need not be nuclear). Even conventional missile proliferation introduces incentives for response. This would be important for the military equation in the Aegean, the eastern Mediterranean, and the Balkans—further evidence of the transregional character of the new strategic environment surrounding Greece.

A feature common to most of the transregional challenges noted here is the imperative of using multilateral approaches to shape the strategic environment and respond to risks, from the almost inevitable problems of migration in southeastern Europe to the very low probability but high consequence risks that WMD proliferation and "superterrorism" pose. The costs of addressing these challenges on a national basis are high and perhaps unsupportable in the Greek

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<sup>16</sup>This is actually an old concern. See Dror (1980), which was originally published 1971.

case. The problem of theater ballistic missile defense provides a striking example of a challenge that probably can only be approached effectively on a Euro-Atlantic basis. In other areas, from terrorism to drug smuggling, the continued Europeanization of Greek policy is essential, driven on the one hand by the need to multilateralize policy problems and, on the other, by requirements emanating from Brussels in an era of increasing European integration.

### GREEK-TURKISH DÉTENTE AND REGIONAL GEOPOLITICS

The perception of a threat from Turkey has traditionally dominated Greek thinking about the strategic environment, including defense planning. This perception has also shaped and perhaps distorted Western analyses of Greece's regional role. Unquestionably, strategic uncertainty regarding Turkey has absorbed enormous energy and resources on the Greek side. In broader political terms, conflict with Ottoman and modern Turkey has been central to the development of Greek nationalism and the evolution of the modern state (see Blinkhorn and Veremis, 1990).<sup>17</sup> The recent détente with Ankara, however tentative, and the future of the relationship with Turkey will have a crucial effect on Greece's foreign and security policy options.

Since the Cyprus crisis of 1974, the potential for a major clash between Greece and Turkey has been important for the security equation in southeastern Europe and the eastern Mediterranean, albeit overshadowed for decades by the East-West competition. Since the breakup of the Soviet Union, relations between Athens and Ankara have been one of Europe's most dangerous flashpoints. Even with tangible conflicts in the Balkans, Western observers, especially in the United States, worried about the prospect of a wider confrontation pulling in Greece and Turkey. This concern was a consistent theme of arguments for American intervention in Bosnia and even Kosovo, despite the fact that Athens and Ankara have pursued distinctly moderate and multilateral policies in the Balkans—perhaps in acknowledgment of the risks of doing otherwise but also out of shared interest.

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<sup>17</sup>Conflict with Greece has also had an effect, if less pronounced, on the development of modern Turkish nationalism, especially in the early years of the republic.

The dangers of Greek-Turkish confrontation, apart from the obvious human costs, are truly strategic. Conflict would undermine stability across southeastern Europe and further complicate the settlement of disputes elsewhere in the Balkans, jeopardize the broader Western strategy of enlargement (both NATO and EU) in the east, and introduce new and damaging variables in relations with Russia and the Muslim world. At a minimum, the environment of brinkmanship that almost led to war over Imia-Kardak in 1996 could have led to the permanent estrangement of Turkey and permanent foreign and security policy costs for Greece. NATO adaptation, especially in the Mediterranean region, would have been difficult or impossible, and the EU's nascent common foreign and security policy would have been mired in Aegean problems.

The current détente is the product of several developments, some proximate and others of a strategic, even grand strategic, nature. On the Greek side, the adoption of a more restrained and "European" foreign policy in the latter years of the Papandreou government provided the groundwork for a new approach. Indeed, some elements of the current rapprochement, especially in the areas of confidence-building and risk-reduction date from this period (e.g., the Papoulias-Yilmaz agreements). The Greek decision to support the offer of EU candidacy to Turkey at the December 1999 Helsinki summit reflects a new, strategic approach to the future of relations with Ankara. Helsinki reversed the deterioration in Turkish relations with Europe that had followed the Luxembourg and Cardiff summits and offered a path toward closer Turkish integration in Europe. Progress along this path would "anchor" Turkey ever more closely to Western institutions, make nationalist approaches less attractive to Ankara, and lend greater stability to Greek-Turkish relations. The Helsinki strategy compels Europe to pay closer attention to areas and issues (including Cyprus) of concern to Athens and, not least, multilateralizes—or more accurately, Europeanizes—the question of policy toward Turkey.

From the Turkish perspective, Helsinki was an enormous symbolic achievement, even if the end state of Turkey's candidacy remains uncertain. In the context of Turkey's own debate about the identity and evolution of the country, this takes on considerable importance. Moreover, the Helsinki agreement was seen—accurately—as reflecting a new and more strategic European approach toward Turkey as

an increasingly capable and assertive regional actor. The EU candidacy is attractive across the Turkish political spectrum. Reformers see it as an opportunity to move the country into the mainstream of the European liberal order. Conservatives and the security establishment see an opportunity to reinforce the country's Western vocation and to secure a place in new European security arrangements (the latter expectation has not, however, been fulfilled). Even Turkey's Islamists find the prospect of greater European pressure on democratization and human rights issues attractive.

These strategic motivations for the Helsinki agreement and Greek-Turkish rapprochement were facilitated by a series of proximate factors. There was a perception on both sides in the wake of the Imia-Kardak crisis, and the subsequent tension over the planned deployment of S-300 surface-to-air missiles on Cyprus, that brinkmanship had reached very dangerous levels, especially against the background of ongoing crises in southeastern Europe (a view EU and NATO allies clearly shared). An accident or miscalculation in the Aegean could easily escalate and lead to a military conflict that would harm the interests of both countries. This sense of peering over the brink, palpable in 1996, was arguably not unlike the effect of the Cuban missile on U.S.-Soviet relations more than 30 years earlier.

A measure of political stability in Athens and Ankara, coupled with a good working relationship between key officials on both sides, offered a positive context for pursuing more-active bilateral diplomacy in a sphere that engages some of the most sensitive nationalist issues. Finally, the disastrous earthquakes of 1999 evoked a sense of sympathy and solidarity on both sides and created a favorable public opinion "space" for new initiatives. The result has been a marked reduction in Greek-Turkish tensions; the conclusion of practical agreements for cooperation in relatively noncontroversial areas, such as public order, trade, and tourism; and most recently, discussions on the implementation of confidence-building and risk-reduction measures.<sup>18</sup> At the same time, the private sectors in both

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<sup>18</sup>The measures tabled for discussion reportedly include both operational and non-operational steps, e.g., limitations on exercises and armed flights, exchanges of military information and observers, high-level military dialogue, and cooperation in the context of NATO Partnership for Peace and Mediterranean initiatives (Athens News Agency, 2000).

countries have embarked on numerous joint initiatives, embracing businesses and nongovernmental organizations (see Kalaycioglu, 2000). The private-sector dimension is especially significant because it reflects a wider constituency for Greek-Turkish détente and offers vehicles for practical cooperation in areas of shared interest, including economic development in the Balkan and Black Sea regions. For the moment, bilateral contacts have become fashionable among commercial and nongovernmental elites on both sides of the Aegean.<sup>19</sup>

Despite very significant change in the Greek-Turkish relationship, supported by strong strategic motivations on both sides, the détente remains fragile and subject to interruption or even reversals. The October 2000 dispute over air operations in the context of a major NATO exercise in the eastern Mediterranean offered clear evidence of this fragility, particularly in the military sphere. There are a number of challenges to the consolidation of Greek-Turkish détente.

First, there is the question of public perception with regard to symmetry and the desire for reciprocity. Many Greek observers feel that it is now "Ankara's move" in the post-Helsinki climate (many Turks would obviously dispute this) and look to Turkey for overtures on the reopening of the Halki theological seminary or other symbolic steps, such as the withdrawal of the Turkish parliament's "causus belli" resolution regarding territorial waters in the Aegean.

Second, there is the substantive question of when and how to progress from relatively noncontroversial matters to the central issues in the bilateral dispute—the Aegean and Cyprus.<sup>20</sup> A more positive climate might endure without addressing these problems but would almost certainly remain a fragile undertaking. Most observers believe that the dialogue must eventually move toward the resolution of the central issues for the détente to be durable. That said, dialogue and agreement in other areas can create a climate of confidence and pave the way for more serious negotiations—as long

<sup>19</sup>As a prominent Turkish observer told the author in the fall of 2000, "if one has not been to a meeting with Greeks in the past week, one is not 'in' in Istanbul."

<sup>20</sup>This analysis does not attempt to assess in detail the complex of Aegean and Cyprus issues that have plagued Greek-Turkish relations for decades. There have been many excellent analyses in this area, including Stearns (1992); see also recent analyses by Theodore Couloumbis and, for a Turkish perspective, Tozun Bahcheli.

as adequate attention is paid to risk reduction in the interim. In this context, a tentative debate is emerging on both sides (as well as in Washington and Brussels) about the extent to which the toughest issues (e.g., Cyprus) can be decoupled from this process without losing public support.

Third, the prospects for détente will be influenced by the longer-term evolution of foreign and security policy priorities on both sides, as well as such exogenous factors as the evolution of the EU and NATO and stability in southeastern Europe, the eastern Mediterranean, and the Middle East. Without positive regional and institutional settings, Greek-Turkish rapprochement will be harder to sustain. There may also be a tension between the desire for military disengagement and a “peace dividend” on the one hand and the possible continuation of Turkey’s large-scale military modernization plans—in the region of \$90 billion through 2020—on the other. In short, can the military aspects of détente be sustained in the face of a changing military balance, even if this change is driven largely by Middle Eastern and Eurasian requirements?<sup>21</sup>

Fourth, and most seriously, the current détente is intimately linked to the evolution of the broader Turkish-European relationship. Stagnation or deterioration in relations between Brussels and Ankara would complicate and perhaps threaten the improvement in Greek-Turkish relations. This connection is especially close in the context of Cyprus and with the likelihood of its accession to the EU with or without a settlement, as the Helsinki agreement implies. For this reason, Athens and Ankara have a shared stake in ensuring that Turkey’s EU candidacy does not prove “hollow.” As the EU’s recently released Accession Partnership Document makes clear, Turkey has a difficult road ahead if it is to meet the “Copenhagen Criteria,” not to mention the myriad harmonization requirements surrounding the accession process itself.<sup>22</sup> There is also the very serious and largely neglected political question of whether key EU members are actually prepared to envision full Turkish membership. The most promising factor in this regard is the possibility that the EU itself will change fundamentally over the next decade, offering new possibilities for

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<sup>21</sup>For a discussion of the evolution of Greek defense policy and the role of the Greek-Turkish competition, see Dokos (1999), Valinakis (1994), and Platias (1991).

<sup>22</sup>For a recent discussion of key challenges and approaches, see Barchard (2000).

Turkish integration. Ideally, accelerated Turkish political and economic convergence with Europe will emerge as the key objective for all sides, without prejudging the likelihood of membership as an end state. Indeed, this convergence may be more important to the stability of Greek-Turkish relations over the longer term than the question of Turkish membership *per se*.

Turkey's economic and political travails and the financial crisis of 2001 may affect the outlook for Turkish integration, and relations with Greece, in unpredictable ways. On the one hand, the crisis may reinforce the view of some within the EU that Turkey's problems are beyond the union's capability to manage. At a minimum, the crisis will offer further, difficult tests for both Ankara and Brussels, and the result could be a weakening of Turkish-EU relations. This could interact with a more nationalistic mood in Turkey and might cloud the outlook for Aegean détente. On the other hand, a Turkey that manages to undertake the economic and political reforms that recovery requires might also be in a stronger position to meet EU requirements on many fronts. Greece has a clear geopolitical interest in Turkish economic recovery, because prolonged turmoil is likely to impede the resolution of key issues in the bilateral relationship and could lend greater unpredictability to Turkish policy.

Despite evident challenges to the consolidation of Greek-Turkish détente, it is clear that the progress that has been made since 1999 represents a critical change in the strategic environment, affecting both Euro-Atlantic and regional interests. The détente has greatly facilitated the EU's enlargement strategy and NATO adaptation in the Mediterranean. It has contributed to the normalization of both countries' relations with key allies and institutions and enhances the prospects for effective multilateral approaches to stabilization, reconstruction, and crisis management in the Balkans. The new climate, if it can be sustained, is a potentially transforming development in Greece's strategic environment.

## **THE MEDITERRANEAN, THE BLACK SEA, AND THE MIDDLE EAST**

Most analyses of Greece's strategic situation in recent years have focused on the country's role in southeastern Europe. This approach

is understandable—and justified—in light of recent conflicts and Greece's role in regional stability and reconstruction. In all likelihood, southeastern Europe will continue to be a central focus of Greek strategy, as well as European and American policy toward Greece.<sup>23</sup> Yet, as the earlier discussion of new transregional issues suggests, developments across a wider region—in particular, the Mediterranean, the Black Sea, and the Middle East—are likely to have an important influence on the strategic environment Athens faces and will offer new opportunities for Greek policy.

The Greek worldview and strategic tradition have been heavily influenced by the country's relationship to the sea and the existence of a large Greek diaspora. Greek shipping is among the most prominent worldwide and remains an important part of the Greek economy.<sup>24</sup> This maritime outlook continues to shape the way Greeks see the country's national interests, including the relationship with Turkey in the Aegean. In this context, it is worth noting an important asymmetry with the Turkish strategic orientation which, despite significant interests in the Mediterranean and the Black Sea, is essentially continental rather than maritime.

Changes across the region can affect Greek interests in several dimensions. Stability around the Black Sea will be shaped by the prospects for political and economic development in Russia, Ukraine, and the southern Caucasus. Ethnic animosities, economic crises, and regional competition cloud the outlook (see Valinakis, 1999). Black Sea developments can in turn influence the evolution of the Balkans and the eastern Mediterranean, where Greek interests are more directly engaged. The effects of turmoil around the Black Sea and its hinterlands can, for example, influence the viability of energy and nonenergy infrastructure projects, including those linking the Caspian and southeastern Europe. The importance of the Black Sea region to the West and to Europe in particular is likely to increase in the coming decades, as a result of the interest in Central Asian resources and the need to develop a stable and cooperative

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<sup>23</sup>The specific outlook for southeastern Europe and Greek policy is discussed at length in the next chapter.

<sup>24</sup>Between the 1890s and the 1990s, the Greek shipping fleet emerged as the world's largest, accounting for some 16 percent of world tonnage by 1994. For an excellent analysis of this history, see Harlaftis (1996).



relationship with Russia (or to limit the consequences of a more competitive relationship). The Black Sea Economic Cooperation project (BSEC), established in 1992, began as a vehicle for Turkish engagement in the region but has since evolved into a genuinely multilateral framework in which Greece has been an active participant.<sup>25</sup> Athens will have a particular stake in reinforcing the European aspirations of Black Sea states and the development of BSEC to include political cooperation and "soft security" matters (Valinakis, 1999, pp. 42, 54).

The evolution of the Middle East, including the Arab-Israeli dispute and the strategic equation in the Gulf, can have a direct influence on Greek security interests. The persistence of Israeli-Palestinian conflict, and reversals in the peace process, can lead to regional spillovers of terrorism and political violence affecting a range of interests, from tourism to maritime security.<sup>26</sup> In the wake of the October 2000 terrorist attack on a U.S. destroyer in Aden, and with ongoing violence in the West Bank and Gaza, governments have become concerned about the possibility of terrorist attacks on the Suez Canal, a risk with implications for both commercial and naval transits (Becker, 2000). Further deterioration in the peace process could even reintroduce the possibility of a wider Arab-Israeli confrontation. Overall, the ever-closer linkage between security in the Middle East and security in Europe means that Greece will wish to take a more active role in European and Western policies that can have direct consequences for Greek security and prosperity. In a narrower sense, the crisis in the Middle East peace process limits Greek freedom of action in the region. In particular, it will be difficult to extend the recent improvement in Greek-Israeli relations, or to set these relations in the context of Turkish-Israeli-Greek cooperation, against the background of continued violence.<sup>27</sup>

<sup>25</sup>Turkey, Greece, Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania, Russia, and Ukraine are members of BSEC. The organization has established, among other initiatives, a Black Sea Trade and Development Bank in Thessaloniki. For a discussion of BSEC and useful next steps, see Rizopoulos (2000).

<sup>26</sup>Middle Eastern terrorism in Greece can be ascribed to the existence of local support networks, proximity to conflict areas and relatively unrestricted travel, and the presence of international targets, among other factors (Kaminaris, 1999).

<sup>27</sup>For a survey of the evolution of these relations, see Nachmani (1987).

Tensions in the Middle East may also lead to a search for new approaches to the peace process in which Europe may play a larger role (see Peters, 1999, and Steinberg, 1999). The United States and Israel have traditionally resisted an active European role in Middle Eastern diplomacy, but this too could change under the pressure of circumstances. The Middle East is also a likely sphere for activism within the EU's CFSP and is a natural vehicle for Greece's increasingly European foreign policy. In the Gulf, the continuing Western confrontation with Iraq holds the potential for renewed American intervention and, perhaps, requests for Greek participation in coalition military operations. Under conditions of increased Greek exposure to retaliation, the debate over access to facilities, overflight, etc., may be more contentious than during the Gulf War. In this case, the critical variable for Greece, as in 1990, may be the extent of European consensus on cooperation with the United States. To the extent that Europe itself develops greater capability and willingness to intervene in crises outside Europe, future pressures along these lines may come from Brussels rather than Washington.

Relations between Iran and the West may also evolve in ways that would affect Greece. There is no reason to assume, for example, that U.S.-Iranian friction is a permanently operating factor, even barring change in Iran's regime or orientation. The uneven pace of reform in Iran has not allowed the relaxation in relations between Washington and Tehran that some had anticipated in the near term. But, despite its revolutionary legacy, Iran is arguably a status quo rather than a revisionist power in regional terms. The prospect exists for further democratization and moderation. An accommodation with American power is possible, and this would allow Europe, including Greece, to move more rapidly in the direction of economic and diplomatic engagement. The reintegration of Iran might improve the outlook for stability in the Gulf, open new lines for the export of Caspian oil (which might, however, have negative implications for the Baku-Ceyhan pipeline via Turkey), create better conditions for Arab-Israeli peace, and reduce proliferation dynamics across the Middle East and the eastern Mediterranean.

Greece shares a southern European interest in promoting Mediterranean issues and Mediterranean initiatives within European and Atlantic institutions. This interest has emerged as part of a general trend toward increasing diplomatic activism among southern Euro-

pean states. Spain and Italy have been in the vanguard of this movement, but Greece also has a keen interest in these activities, because its interests are engaged in the region, but also as part of an increasingly European approach. Europe has evolved a complex and reasonably effective security architecture. Across the Mediterranean, and in the Middle East, there is essentially no functioning security architecture. Although a comprehensive Arab-Israeli settlement could facilitate the creation of regional security arrangements, there is also an interest, not limited to Israel, in building ties to Euro-Atlantic institutions—"borrowed security"—as an alternative approach.

The Mediterranean has acquired greater prominence in EU and NATO strategies, and the initiatives these institutions have sponsored have become focal points for dialogue across the region.<sup>28</sup> Whereas the Euro-Mediterranean Partnership (the "Barcelona Process") dominates the economic and social dialogue between north and south in the region, the security dimension is treated in several forums, including the political and security basket of the Barcelona Process. All Mediterranean dialogues in the security area have suffered from a high degree of suspicion among southern Mediterranean states, as well as from the Arab-Israeli tensions. Indeed, the Arab-Israeli dispute imposes the leading, enduring constraint on the development of an effective multilateral approach to security in the region.

In NATO's seven-member Mediterranean Initiative, some participants have expressed a desire to move from dialogue to more-active cooperation, focused on region-specific interests (e.g., maritime search and rescue, energy security, and proliferation issues). Whether this interest can survive the current deterioration in relations with Israel remains to be seen. From a Greek perspective, the evolution of the NATO dialogue is notable for its increasing focus on the eastern Mediterranean and issues of more direct concern to Athens. When the initiative was launched in 1994, at the height of

<sup>28</sup>The Mediterranean dialogue agenda includes initiatives in the framework of the Organization for Security and Cooperation in Europe, Western European Union, NATO, the EU, the Mediterranean Forum, and the multilateral track of the Middle East Peace Process. Several of these initiatives embrace nongovernmental as well as official dialogues.

the crisis in Algeria and in the midst of the debate over “civilizational” clashes, the focus was very much on north-south relations in the western Mediterranean. Over time, however, the center of gravity of the initiative has shifted eastward, with Israel, Egypt, and Jordan emerging as the most active participants.<sup>29</sup>

The Mediterranean is also likely to acquire even greater prominence in both EU and NATO strategy as both institutions seek to adapt to a new political and security environment in which risks and opportunities have shifted from the center of Europe to the southern periphery. This shift is clearly reflected in the functional challenges highlighted in NATO’s new Strategic Concept and in the likelihood that any further enlargement of the Alliance will include one or more Balkan states (Lesser, 2000).<sup>30</sup> Athens, with Ankara, has a strong stake in the early enlargement of NATO southward to further integrate and stabilize southeastern Europe. In addition to the obvious implications of Middle Eastern developments for CFSP, in the defense realm, European Security and Defense Policy/European Security and Defense Identity are also likely to be felt first and foremost in the southeastern Europe and the Mediterranean, that is, in Europe’s backyard. A deployable European force along the lines of the “headline goals” announced in Helsinki is far more likely to be employed around the Mediterranean than on the Polish border.

Greek forces will almost certainly be part of these new European arrangements, and the most likely uses of these forces will be in Greece’s neighborhood. Finding an acceptable formula for including Turkey in European foreign and security policy decisionmaking, as well as EU defense arrangements, could improve the outlook for an effective approach to security on Europe’s southern periphery. Such a formula may also be essential for ensuring that Turkish-EU relations—and Greece’s Helsinki strategy—move forward, as Turkish opinion already regards the EU’s willingness to incorporate Ankara in these initiatives as a key test of Europe’s “seriousness.” Greece may, traditionally, have sought to minimize Turkey’s role in Euro-

<sup>29</sup>Mauritania, Morocco, Algeria, Tunisia, Jordan, Israel, and Egypt are members of the NATO Mediterranean dialogue. For a discussion of the initiative in the context of changes in NATO and the Mediterranean environment, see Lesser et al. (2000).

<sup>30</sup>On the case of Turkey in NATO’s first “enlargement,” see Athanassopoulou (1999).

pean defense decisionmaking, but this approach no longer makes sense if relations with Turkey are to be addressed in a European frame.

Ankara's approach to the question is driven by the desire for a full role in security and defense decisions that may well concern events on its borders. More broadly, Turkey sees the EU stance on ESDP as a "test case" for European seriousness regarding Turkish integration. At the same time, Ankara does not wish to see any reduction in the role of NATO and, above all, the United States in European security. The Turkish veto of proposed planning arrangements for a European force within NATO has had the ironic effect of driving EU policy toward a more independent defense capability, with weaker ties to NATO—a development that works against Turkish and U.S. interests in promoting the inclusiveness of EU defense initiatives.

## GREECE AND THE EURO-ATLANTIC SYSTEM

This discussion has focused on the relevance of developments in the regional (and transregional) environment for the Greek position. But Greek strategic interests will also be heavily affected by even wider changes involving Europe, the United States, and the international system in an era of "globalization."

First, Europe is changing in ways that will confirm the importance of Greece's movement into the European mainstream but that may also complicate Greek policy. The EU has embarked on a process of substantial enlargement that will change the distribution of resources within the Union and that raises important questions about Greece's role and influence. As with the issue of NATO enlargement, Athens has opted to support EU enlargement for geopolitical reasons, despite the evident dilution effect. The prospect of a wider and possibly "multispeed" Europe has given Greece an even stronger stake in the consolidation of the country's European identity and position within the EU core. In this context, Greek membership in the EMU, confirmed at the Lisbon summit in June 2000, has enormous symbolic and practical importance. The success of the Greek convergence program after decades of shaky economic performance and criticism from European partners represents an important achievement. If successful at the European level, EMU can bring increased growth and economic stability. It can also provide a continued

stimulus for reform and modernization. But membership in EMU is also certain to impose costs in terms of the ability to set monetary and fiscal policies, and future convergence requirements may compete with costly and much-delayed structural reforms. The challenge of sustaining the convergence program after EMU is heightened by the looming end of large-scale EU "cohesion" funding for Greece.<sup>31</sup>

Prospective changes in EU decisionmaking may be of even greater significance for Greece across a range of issue areas. Enlargement argues strongly for the reform of European decisionmaking procedures that might otherwise become unworkable. But smaller states within the Union are concerned about the loss of influence these reforms might entail (see Andreatta et al., 1996). The question has particular meaning for Greece to the extent that the EU succeeds in developing a more active foreign and security policy, because this policy will be heavily concerned with issues in Greece's region(s). That said, having committed itself to a European policy, Athens has a particularly strong stake in ensuring that Europe is a capable actor, and decisionmaking reforms may be a necessary price to pay. Another consequence may be the emergence of even-more-pronounced, and accepted, niche roles within the EU, which could actually reinforce Greek influence on policy toward southeastern Europe and the eastern Mediterranean.

Second, transatlantic relations are entering a period of flux that will affect Greek interests. With signs that the EU may finally be "getting serious" about building an effective and more independent defense capability and with a new American debate about the proper nature and extent of U.S. engagement in Europe, the groundwork has been laid for potentially substantial change in transatlantic relations, especially in the security realm. European concern over suggestions that the United States might reduce its military commitment to Balkan peacekeeping points to an important change in Greek-U.S. relations. Traditionally, Greek observers have tended to measure the health of the bilateral relationship on the basis of specific, tactical questions, including the prospects for arms transfers and, of course,

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<sup>31</sup>I am grateful to RAND colleague Katia Vlachos for this analysis of EMU's benefits and risks for Greece.

policy toward the Aegean and Cyprus. Such questions have not lost their relevance, but it is likely that the character of the relationship in the future will be determined to an even greater extent by the substance of U.S. policy toward Europe as a whole, and toward nearby areas, such as the Middle East.

As Greek policy has become more European, Greek stakes in the bilateral relationship may come to resemble the perspective from London, Paris, or Berlin. But because Greece is adjacent to unstable regions, the extent of American involvement in these places, whether southeastern Europe or the Levant, has even greater significance for Athens and may emerge as a key measure of the bilateral relationship. A disengaged United States or one more inclined to act unilaterally would be a more difficult partner for Athens and for Europe as a whole.

The European and Atlantic dimensions of Greek policy should not be incompatible in this new setting. A more active Europe and a more European Greece actually imply a healthier bilateral relationship. This is already observable in the way that Washington increasingly treats policy toward Greece as part of policy toward Europe as a whole. At the same time, European consensus increasingly provides a context for Greek policy toward the United States and may actually permit more ambitious—and less controversial—cooperation than might be possible on a strictly bilateral basis.

Southeastern Europe and the Mediterranean are no longer marginal regions in the transatlantic calculus. The key measures of European and American roles in the new strategic environment will be found in areas near Greece. Given the range of instruments required for the stabilization and reconstruction of the Balkans and the Middle East, from peacekeeping forces to commercial investment, Athens will have an interest in keeping Europe and the United States engaged in a coordinated fashion. Europe may soon be capable of developing an independent approach to security in the Balkans, but there almost certainly will be circumstances in the future requiring American involvement. Further afield, in the Levant and the Gulf, a strong American role is a necessity, given the predominance of hard security challenges.

Finally, globalization has potentially important implications for Greece's role. The term *globalization* embraces many different phenomena in the realms of economics, information, technology, politics, and culture. In the economic realm, it implies the spread, above all, of an American-inspired model of unfettered capitalism—"turbo-capitalism"—as Edward Luttwak describes it (see Luttwak, 1999; Mittelman, 2000; and Keohane and Nye, 2000). Societies in southeastern Europe and around the eastern Mediterranean, including Greece, are strongly affected by these phenomena. The region has many examples of societies experiencing rapid change, with many pressures on the sovereignty of the state.<sup>32</sup> It is fashionable to see the United States as the primary engine of globalization. This is so in many respects, but in the areas surrounding Greece and for Greece itself, the demands of European integration are an equally important facet of the globalization phenomenon.

As the southeastern European and eastern Mediterranean country most closely integrated with Europe, Greece itself can be a vehicle for globalization—in the sense of new economic and social models—for the region. In this setting, Greece may find that its "soft power" assets, including an agile and internationally oriented private sector, exportable technical expertise, and political credibility—all instruments that can affect international outcomes through "attraction" rather than coercion—confer advantages in addressing regional problems (see Nye, 1990). In this sense, the outlook for an active Greek role in the Balkans and the Middle East may have as much to do with the changing nature of power in the international system as it does with geography and Greece's institutional links.

Globalization also threatens the security of identity in many societies, as a consequence of migration or through wider access to information. As elsewhere in Europe, Greek society has experienced some aspects of this problem, but for other societies around the region, especially those across the Mediterranean, globalization poses a much more serious challenge to identity. At a minimum, globalization is likely to be part of the environment that Greece confronts in dealing with its eastern Mediterranean neighbors in the future. With its own experience of democratic transition and inte-

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<sup>32</sup>Turkey is an exemplar of challenges facing a traditionally strong state.



gration and its position on the European periphery, Greece may also have a credible role to play as a Euro-Atlantic actor in north-south relations, where the globalization debate has become a source of friction.<sup>33</sup> Above all, Greece has a stake in preventing political frictions from acquiring harder security dimensions, a development that would foreclose many regional opportunities for Greece and that would foster an environment in which Greece's soft-power assets are less relevant.

## CONCLUSIONS AND POLICY IMPLICATIONS

The strategic environment Greece faces is increasingly complex and is characterized by a range of hard and soft security issues, many of which cut across regional lines. Developments in southeastern Europe and in relations with Turkey have the most direct bearing on Greek interests. But Greece's full area of strategic concern and potential is far wider, stretching from the Adriatic to the Caspian and across the Mediterranean and the Middle East. Developments within this larger space can have an important, if less direct, influence on Greece and may be shaped by policies pursued in a multilateral frame. Beyond these spheres, Greece must operate in even broader European, transatlantic, and global systems. Changes here will also have a significant effect on Greece and its international role.

An important feature of the new strategic environment has been the end of southeast European and Mediterranean marginalization. The hard and soft security challenges Greece faces in these areas, as well as questions of regional development, are now central to European and American perceptions. Successive crises in the Balkans and the Middle East have made this clear. Key aspects of both EU and NATO strategy reflect the new primacy of concerns about Europe's periphery. Europe faces the challenge of stabilizing and integrating poorer and less stable societies to the south. NATO faces the challenge of developing a cooperative model of security in the Balkans, across the Mediterranean, and in the Middle East. Greece, integrated into key Western institutions, looks across the Mediterranean to areas where institutions are weak or nonexistent and where there is no functioning security architecture. Yet some of the most pressing issues, from

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<sup>33</sup>In this vein, see Kranidiotis (1999).

proliferation to refugee flows, from transnational crime to terrorism, cannot be addressed effectively on a national basis.

Against this background, the progressive Europeanization of Greece, and Greek policy, is a transforming development. Virtually all of Greece's external policy challenges, including some of the most traditional and neuralgic, have now been placed in a multilateral frame. The European linkage confers great advantages, and the renationalization of Greek policy in most areas would be costly, damaging, and perhaps impossible. At the same time, closer integration has shifted the burden in key areas, such as immigration policy, to Europe's periphery—another element of the Greek stake in stability in adjacent regions.

Just as Greece looks to Europe, Europe is set to acquire a more active role in foreign and security policy and in defense. The effects of this are likely to be felt first and foremost on the periphery, in southeastern Europe and the Mediterranean—that is, in the Greek neighborhood. The result is likely to be a more European context for Greek policy toward these regions. Continued turmoil in the Middle East could fuel this trend. This is not to suggest a significant reduction in the U.S. role or a lessening of the importance of the transatlantic link for Greece—but the emerging environment is likely to be more balanced in Euro-Atlantic terms. On the whole, this should reinforce the normalization that has characterized Greek-American relations in recent years. As this analysis suggests, a European frame for cooperation with Washington has actually been an element of stability in the bilateral relationship.

This analysis suggests a number of policy directions aimed at improving the strategic environment, strengthening the Greek role, and hedging against instability.

First, Greece's European option should be strengthened and extended. Indeed, this is no longer really an "option" for Greece but a confirmed strategic choice. Prospective EU decisions about enlargement; decisionmaking reform; the future of cohesion funding; and, above all, the management of EMU will affect Greece, but the European connection remains a great asset for the country in geostrategic terms.

Second, Greece should move to consolidate the recent détente with Turkey as a contribution to regional security—and the national

interest. This détente is closely linked to progress in Turkey's European integration, and Athens should continue to support this, bearing in mind that, over time, convergence may be more important (and perhaps more realistic) than EU membership. The future of Greek-Turkish détente should not, however, be entirely dependent upon smooth relations between Turkey and Europe. Athens and Ankara have an independent interest in risk reduction and strategic dialogue, and these activities, including military confidence-building measures, should be pursued as a hedge against vagaries in Turkish-EU relations.

Third, Greece can build on its position of regional credibility and useful "soft power" assets to continue to play a key role in southeastern Europe. Athens and many Greek institutions are well positioned to play a role in the longer-term stability and reconstruction of a region that has become a focus of Western security concerns. Greek and Western interests are served by the development of regional infrastructure as a basis for economic development but also as a vehicle for interdependence and security through diversification.

Fourth, developments in southeastern Europe should not obscure the reality of the Greek stake in developments around the Mediterranean and the Middle East. This could be an emerging high-priority area for Greece and for Europe in its common foreign and security policy. As the center of gravity of both EU and NATO initiatives in the region shifts eastward, Athens has an opportunity to play a more active role in efforts that will help define the strategic environment facing Greece over the longer term.

Not coincidentally, these policy directions can also serve to redefine and strengthen Greek-U.S. relations. The Europeanization of Greek policy—and the tendency for Washington to see Greece as part of the European landscape—has had a positive effect on the bilateral relationship. Beyond cooperation on new functional issues, support for Greek-Turkish détente and risk reduction, southeastern European reconstruction, and security in the Mediterranean and the Middle East are natural focal points for cooperation between Washington and Athens in the 21st century.

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### Chapter Three

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## **BALKAN SECURITY AFTER THE FALL OF MILOSEVIC: CHALLENGES AND IMPLICATIONS FOR GREECE**

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The Balkans have traditionally been characterized by political instability and turmoil. In the 19th century, the region was the object of Great Power rivalry and resurgent nationalism, as Britain, Russia and Austria-Hungary sought to exploit the political vacuum caused by the disintegration of the Ottoman Empire to expand their influence in the region. This rivalry exacerbated local tensions and directly contributed to the outbreak of World War I.

In the post-Cold War period, the Balkans have again emerged as a source of instability and concern. The disintegration of Yugoslavia and the collapse of communism in southeastern Europe have led to an upsurge of political instability and conflict throughout the region. As in the 19th century, Balkan conflicts have not remained localized but have quickly escalated and dragged in outside actors. Bosnia and Kosovo have both demonstrated the degree to which such conflicts have broader implications for European security.

Indeed, creating a stable security order in the Balkans is likely to remain a major challenge for Western governments in the coming decades. There have been a number of positive developments since the end of the conflict in Kosovo—most notably the change of regimes in Croatia and Serbia. But as the ethnic violence in Macedonia in the spring and summer of 2001 underscores,<sup>1</sup> the potential for upheaval and disorder in the Balkans remains strong. Moreover, a number of structural problems—economic underdevelopment,

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<sup>1</sup>For the sake of convenience, the terms *FYROM* and *Macedonia* are used interchangeably in this chapter. This should in no way be construed as taking a position in the name dispute between Greece and FYROM.

weak civil societies, aggrieved minorities, corruption, growing criminalization, and a lack of strong democratic institutions—continue to pose serious threats to political stability in the region.

Of all the countries in the European Union, Greece has perhaps the greatest stake in Balkan stability. Increased turbulence in the Balkans could unleash a new wave of refugees, exacerbating the already serious economic and social problems that the economic and political upheaval in the Balkans over the last decade have created. Trade vital to Greece's economic growth could also be disrupted. Finally, the promising improvement in Greek-Turkish relations since mid-1999 could be jeopardized. Thus, how the Balkans evolve over the next decade will have important implications for Greek security.

This chapter examines the security environment in the Balkans since the end of the Kosovo conflict and the implications for Greece. The initial section focuses on key security challenges in the region, particularly those that developments in Serbia, Kosovo, and FYROM pose. The second section examines the interests and policies of major outside actors: the United States, EU, NATO, Russia, and Turkey. The final section focuses on the implications of these trends for Greek policy.

## **SERBIA AFTER MILOSEVIC**

Serbia's political evolution will be critical for Greece and for future stability in the Balkans. As long as Slobodan Milosevic was in power, there was no chance of integrating Serbia into the broader mainstream of Western policy initiatives and developing a comprehensive policy toward the region. Milosevic's defeat in the September 24, 2000, presidential elections, however, radically changed the dynamics of Serbian—and Balkan—politics, opening up new prospects for the democratization of Serbia and its reintegration into European institutions.

Greece has a strong stake in the democratization process in Serbia. A stable democratic Serbia would make it much easier to develop a coherent regional Western policy toward the Balkans and to integrate the Balkans—and Serbia—into a broader European framework. With its historically strong ties to Serbia, Greece is well placed to play an important role in promoting this integration process.

Serbia's transition, however, is likely to be long and difficult. After 10 years of war and economic deprivation, the Serbian economy is in ruins. Serbia's gross domestic product (GDP) is half what it was in 1989; industrial production is one-third what it was in 1989; unemployment is over 30 percent; the foreign debt is larger than the GDP; and black marketing and corruption are rampant. Milosevic's cronies still control many key industries and economic organizations. Thus, getting Serbia back on its feet economically will be a formidable challenge.

Moreover, the current Serbian leadership is hardly monolithic. The Democratic Opposition of Serbia (DOS) is composed of 18 different parties and forces. It showed a rare degree of unity in the weeks leading up to the September 24, 2000, elections. But this unity is likely to erode with time, making the implementation of a coherent and effective reform program difficult.

Eventually, the DOS is likely to split into two or three factions. Such splits have characterized other such umbrella groups in Central and Eastern Europe once they have taken power. Solidarity in Poland, the Civic Forum in Czechoslovakia, the Hungarian Forum in Hungary, and the SDS in Bulgaria all quickly split into various factions and parties once the initial goal of overthrowing communist rule had been achieved. The DOS seems likely to follow the same pattern.

Internal divisions within the ruling coalition have already begun to manifest themselves. President Kostunica has adopted a slow and deliberate approach to change. By contrast, Serbian Prime Minister Zoran Djindjic, the leader of the Democratic Party (the largest party in the ruling coalition), has pushed for more rapid and visible change, especially a far-reaching purge of the secret police and the army. Djindjic also took a more flexible attitude toward sending Milosevic to The Hague to stand trial.

These divisions within the ruling coalition could weaken the government's effectiveness and ability to develop a coherent program of economic and political reform. Failure to implement such a reform program could erode domestic (and Western) support for the new government. If economic progress is not rapid, the government could face a domestic backlash like those in Bulgaria after the United Democratic Forces took power in October 1991 and in Romania after

the victory of the democratic opposition in the November 1996 elections.

Western assistance will be critical to stabilizing the new democratic government in Belgrade. Without such assistance, social discontent may grow and the government could seriously weaken, even collapse. The arrest and extradition of Milosevic to The Hague should improve the prospects for Western aid, including from the United States. But Washington and many other European governments are likely to insist that other indicted officials eventually be extradited to The Hague to stand trial as well.

The new government will also need to gain control over the army and police, both of which largely remain in the hands of Milosevic supporters. The top leadership of both institutions will need to be purged and brought under firm civilian control. This issue has been a source of tension within the ruling coalition. The police are likely to present a special challenge because they are highly criminalized. A large-scale purge of the police could lead to a rise in organized crime, with many of those purged finding employment with Mafia-like groups. The army, by contrast, is more professional. While the top officers are Milosevic loyalists, many of the junior officers support the DOS. Thus, obtaining the army's loyalty is likely to be easier than ensuring that of the police.

Several other internal challenges compound these problems. The most pressing is the need to regulate relations with Montenegro. Since the late 1990s, Montenegro has increasingly distanced itself from Serbia and carved out a strong degree of political and economic autonomy. Indeed, Montenegro today enjoys *de facto* independence. The only effective federal institution still operating in Montenegro is the Yugoslav Army.

Since Milosevic's ouster, pressures for independence have increased, particularly within Djukanovic's own party (see International Crisis Group [ICG], 2000c). Many Western officials initially assumed that these pressures would abate with Milosevic's departure, but this has not happened. Instead, the drive for independence has acquired new momentum.<sup>2</sup> Although Djukanovic and his proindependence

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<sup>2</sup>A poll published in the Montenegrin daily *Vijesti* on October 30, 2000, showed that a majority of respondents would favor independence if a referendum were held,

block did not receive the hoped-for two-thirds majority needed to change the constitution in the April 2001 parliamentary elections, the proindependence forces gained 44 out of 76 seats in the Montenegrin parliament—enough for a simple majority. The election results may slow the movement toward independence somewhat in the short term, but the long-term prospects for the survival of the Yugoslav Federation remain dim.

Developments in Montenegro, moreover, could have a strong influence on the situation in other parts of Serbia, especially Voivodina. Under Tito, Voivodina and Kosovo enjoyed the status of autonomous provinces. However, Milosevic stripped Voivodina and Kosovo of their autonomy in 1989. Unlike Kosovo, Voivodina does not face strong separatist pressures. However, pressures for greater autonomy and regionalization have begun to grow (*Neue Zürcher Zeitung*, 2000). If Kosovo and/or Montenegro leave the Yugoslav Federation, pressures for greater autonomy could increase in Voivodina and Sandzak.

Western policy remains opposed to the breakup of the Yugoslav Federation. Neither the United States nor the EU wants to see more ministates in the Balkans. But the effort to keep the Federal Republic of Yugoslavia together may prove as illusory as the West's attempt to preserve the Yugoslav Federation in 1990–1991. As in Yugoslavia at the time, the disintegrative trends in the current Yugoslav Federation have gone too far to be easily reversed. Thus, the West may eventually have to accept that Humpty-Dumpty cannot be put back together again.

Montenegro's independence today, however, would not present the same type of danger that it would have when Milosevic was in power. At that time, a Montenegrin declaration of independence could have led to a military coup and possible civil war. However, with Milosevic gone, the danger of military intervention has significantly receded. Both President Kostunica and Prime Minister Djindjic prefer to keep the Yugoslav Federation together but have made clear that, if Montenegro wants independence, they will not stand in its way. Thus, if Montenegro does decide to leave the Federal Republic

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although a majority also favored some future association with Serbia. See RFE/RL (2000) and *Le Monde* (2000).



of Yugoslavia, the breakup is more likely to resemble the “velvet divorce” between the Czech Republic and Slovakia in 1993 than to be accompanied by large-scale civil strife, as might have been the case when Milosevic was in power.

The main impact would be on Kosovo. Montenegro's departure could give new impetus to calls for Kosovo's independence and could make keeping Kosovo as an integral part of Serbia more difficult. It would also have repercussions for Serbian domestic politics. Kostunica would, in effect, become the president of a nonexistent country and would then probably run for president of Serbia.

The final challenge is a deeper political and social challenge—and, for that reason, all the more difficult. As in Germany after World War II, there will need to be a process of *Vergangenheitsbewältigung* (overcoming the past), in which Serbs seek to come to terms with their role in facilitating Milosevic's rise to power and his disastrous nationalist policies. After all, Milosevic did not create Serbian nationalism but exploited it for his own political purposes. Serbian nationalism has deep roots in Serbian society and Serbian political life, and the willingness of many Serbs to support Milosevic's nationalist agenda is closely connected to the Yugoslav crisis.<sup>3</sup>

The process of *Vergangenheitsbewältigung* cannot happen overnight. It will take time, and Western statesmen should show a degree of patience and understanding for the difficulties the new government in Belgrade faces. But such a process is essential for the development of democracy in Serbia and Serbia's reintegration into European democratic institutions. Without it, the democratization process in Serbia will be short-circuited and incomplete.<sup>4</sup>

Given its geographic proximity and close historical ties to Serbia, Greece is particularly well suited to facilitating Serbia's democratic transition and reintegration into Europe. Greek investment could play an important role in helping revitalize the Serbian economy.

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<sup>3</sup>For detailed discussion, see Pesic (1996).

<sup>4</sup>Both Kostunica and Djindjic have spoken of the possible establishment of a “Truth Commission,” which would examine Milosevic's crimes and their origins. Such a commission could form the basis for a more far-reaching examination of the forces that led to his rise to power and his ability to maintain it.

Greece's successful transition from authoritarian to democratic rule after 1974 may also provide some useful lessons for Serbia's own transition.

### THE KOSOVO PROBLEM

Kosovo's future poses a second major challenge for the West—and for Greece. A stable, democratic Kosovo is a precondition for stability in the Balkans and for Greek security. Unrest in Kosovo could undermine the prospects for democratization in Serbia and possibly destabilize FYROM. Both developments, especially the latter, would have a serious impact on Greek security.

Despite some progress toward restoring political order since the end of the air campaign, the situation in Kosovo remains worrisome. Local political institutions are weak; the economy is in shambles; lawlessness and an atmosphere of fear and intimidation persist in many places; freedom of movement and interaction between the Serbian and Albanian communities are virtually nonexistent; and public order has not been restored in many areas, despite the presence of NATO troops. Most importantly, Kosovo's political status remains unclear.

Restoring political order in Kosovo will not be easy. The political scene in Kosovo remains highly fractured. Most Albanian parties tend to be collections of individuals grouped around a prominent leader. All support Kosovo's independence, but few have clearly identifiable platforms or articulate clear solutions to Kosovo's economic and social problems. Many of the parties are regionally based and are dominated by particular clans and powerful regional families.

The Democratic League of Kosovo (LDK), led by Ibrahim Rugova, is the largest and best organized party. Rugova's image was badly tarnished by his much-publicized meeting with Milosevic during the Kosovo conflict and his failure to return to Kosovo immediately following the end of the air campaign. However, the LDK has managed to regain some of the support which it initially lost from 1997 through 1999. It did well in the local elections in October 2000, winning 58 percent of the votes and 21 out of 27 contested municipali-

ties. If a national election were held in Kosovo today, the LDK would probably win.<sup>5</sup>

The Kosovo Liberation Army (KLA) has been weakened by internal splits since it formally disbanded in September 1999. The PDK is strong in the Drenica area but does not enjoy widespread national support. Its relatively modest showing in the October 2000 municipal elections—it came in second, with 27 percent of the vote—was a clear blow to Thaci's political fortunes. Many Kosovars appear to have held the KLA responsible for the violence and disorder that occurred after the end of the air campaign, a fact that damaged Thaci's electoral appeal.

Thaci's claim to the KLA heritage has been challenged, moreover, by Ramush Haradinaj, a former KLA commander with an exemplary military record. Haradinaj resigned from the Kosovo Protection Force and founded his own party, the Alliance for the Future of Kosovo, a coalition of citizens and small parties. The alliance came in third in the local elections, with 7 percent of the vote.

The October 2000 municipal elections were encouraging in several respects. First, they were generally considered fair and took place without major violence. Second, they led to an overwhelming victory for the moderates centered around Rugova. Third, they provided an opportunity for the Kosovar Albanians to begin to take charge of their own affairs. Following the municipal elections relatively soon with national elections should help to defuse some of the dissatisfaction that has been building up among Kosovar Albanians regarding the international community's slowness in setting up interim democratic structures. The more Kosovar Albanians can begin to take responsibility for their own affairs, the greater the chances of stability in Kosovo over the long run.

At the same time, the international community needs to develop a coherent long-term policy regarding Kosovo's future. The current Western policy—support for autonomy within a Federal

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<sup>5</sup>A KFOR poll conducted in Kosovo in April 2000 found that 47.6 percent of those polled favored Rugova's LDK, and only 12 to 14 percent supported the Democratic Party of Kosovo (PDK), led by Hashim Thaci, the former KLA leader. Other polls conducted by the newspapers *Zëri* and *Kosovo Sot* in June 2000 also show the LDK leading the PDK, although not by as wide a margin. See ICG (2000a), p. 21.

Yugoslavia—is likely to prove untenable over the long run. It has no support among any of the key actors in Kosovo—including moderates like Rugova—and is not likely to be acceptable to the Kosovar Albanians even if a more democratic regime in Serbia emerges. As a recent ICG report noted,

Kosovo Albanians have not the slightest interest in “substantial autonomy” as an end point in their relationship with Serbia. They are convinced that the international community has an obligation—some claim to believe that they have been promised this—to transform what they consider the *de facto* independence they now enjoy from Serbia into *de jure* independence within a few years. Should Kosovo Albanians conclude that this is impossible, their attitude toward the international mission in Kosovo would shift fundamentally. (ICG 2000b, p. 10.)

Paradoxically, Milosevic’s ouster has had an unsettling effect in Kosovo. As long as Milosevic was in power, Kosovar Albanians could count on certain sympathy from the West. The election of a democratic government in Belgrade, however, has made it more difficult to demonize Serbia and has weakened the prospects for Kosovo’s independence. As the realization sets in that independence is not around the corner, younger Albanians may become impatient and disillusioned with the international community. This could erode support for the moderates around Rugova and strengthen the hand of the hard-line nationalists.

Thus, the international community needs to begin to develop a clearer roadmap regarding Kosovo’s final status. Without a clearer perspective on its political status, the influence of the hard-liners within the Albanian community is likely to grow. Many Kosovar Albanians could begin to regard the international community, rather than the Serbs, as the main obstacle to self-determination. This could lead to renewed violence, even reprisals, against NATO and the UN. Indeed, the West could be faced with the emergence of a “Palestinian problem” in the heart of Europe.

Most Western states, Greece included, oppose a change of borders and favor Kosovo remaining an autonomous part of the Federal Republic of Yugoslavia. However, this given that this solution is unacceptable to the majority of Albanian Kosovars, all of whom support independence as an end goal. Thus, in the long run, indepen-

dence for Kosovo may be difficult to prevent. *But how and when independence occurs is important.* Independence before Kosovo has developed functioning democratic institutions and while the Balkans remain plagued by ethnic strife could be highly destabilizing. However, independence will be less disruptive and dangerous if it is *the final stage of an extended transition process* and if it occurs after the Balkans have been integrated into a broader European economic and political space.

One possibility would be to put Kosovo under UN trusteeship for a specific period while the mechanics of Kosovo's final political status were worked out. This could be modeled on the process used for some colonies after World War II.<sup>6</sup> Under this plan, the Kosovars would exercise self-rule, with the possibility of self-determination after a specific period—say 10 to 15 years—as democratic institutions were consolidated. During the transition period, the UN would exercise overall administrative responsibility but the Yugoslav Federation would officially retain sovereignty.

At the end of the transition period, Kosovo would have the option of self-determination or staying within the Yugoslav Federation (or as a part of Serbia if the federation collapses). Full independence would be made contingent on

- the establishment of effective, truly democratic political institutions
- respect for minority rights, especially the rights of the Serbian community
- respect for the territorial integrity of its neighbors, above all, FYROM
- complete freedom of movement for the Serbian community in Kosovo and Serbia to visit Serbian churches and other important Serbian cultural sites.

Such a solution would have a number of advantages: First, it would postpone the final status issue and allow time for democratic institutions in Kosovo to take firm root. Second, it would allow time for

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<sup>6</sup>I am indebted to Evangelos Kofos of the Hellenic Foundation for European and Foreign Policy (ELIAMEP) for this suggestion.

consolidating democracy in Serbia without overburdening the political agenda in the initial phases of this process. Third, it would allow an orderly transition under international supervision. Fourth, it would make independence contingent on the fulfillment of specific conditions, especially respect for the borders of its neighbors. Finally, it would provide time for the international community to stabilize the rest of the region.

Admittedly, such a solution would not be without risks or pain. It would require Serbia to give up sovereignty over an area that has been regarded as an integral part of Serbia since the Middle Ages. Against this, however, must be weighed the political, economic, and social costs of trying to maintain control over Kosovo. Over the long run, trying to hold on to Kosovo is likely to suck Serbia into a quagmire of endless violence and repression that will create major obstacles for Serbia's internal democratization and its integration into Europe.

In the end, as France was forced to recognize in the case of Algeria, the political and social costs of trying to maintain control over Kosovo may simply outweigh the costs of letting the region go, painful as such a course may be. Indeed, the choice for Serbia may ultimately be between maintaining Kosovo as an integral part of Serbia or joining the European mainstream. But unlike General de Gaulle, no Serbian leader seems willing to face this reality—or to display the political courage to act on it.<sup>7</sup>

## KOSOVO AND THE ALBANIAN NATIONAL QUESTION

One of the arguments often cited against Kosovo independence is that an independent Kosovo could spark pressures to create a "Greater Albania." However, there are strong reasons to believe that this would not necessarily be the case (see Troebst, 2000, and Schmidt, 2000). Historically, the Albanians have not lived in a unified state (except during a brief period from 1941 to 1944, under Italian occupation). During the Ottoman period, they were concen-

<sup>7</sup>Kostunica has often cited the general as one of his heroes but seems to have missed the parallels between the choice he faces in Kosovo and de Gaulle's historic decision to give up Algeria.

trated in four separate administrative units (*vilayets*): Shkoder, Kosovo, Jannina, and Monastir, in what are today Albania, Kosovo, northern Greece, and FYROM, respectively.

Moreover, there are important tribal, regional, and cultural differences between the various Albanian communities. Most in the southern part of Albania are Tosks, while most in the more mountainous north are Gegs. Most Kosovar Albanians are Gegs. Thus, unification would upset the political balance of power in Albania in favor of the Gegs.

These tribal differences are compounded by deep political divisions. The northern parts of Albania are the stronghold of the Democratic Party, led by former President Sali Berisha. The south, by contrast, is dominated by the Socialist Party, which is the ruling party in the current government in Tirana. The south is also religiously more diverse—there are large Orthodox and Catholic populations—while the north is largely Muslim.

During the communist period, there was very little communication or exchange between the Albanians in Albania and the Albanians in Yugoslavia. This tended to accentuate regional and cultural differences within the Albanian community. Economically, the Albanians in Yugoslavia were much better off than the Albanians in Albania. Culturally, the two communities had evolved along quite different trajectories. Hence, when the restrictions on travel between Kosovo and Albania were lifted in the 1980s, many Kosovar Albanians found they had very little in common with their much poorer cousins in Albania.

Even within Yugoslavia itself, there were important differences between the Albanian communities. While the Albanians in Kosovo gradually expanded their rights in the 1970s and 1980s, the Albanians in Macedonia faced increasing restrictions on their political and cultural rights.<sup>8</sup> Indeed, the Albanians in Macedonia would have been happy to have had the same rights that their brethren in Kosovo enjoyed. Moreover, neither the Albanians in Kosovo nor the Albanians in Macedonia showed a serious interest in uniting with Albania. The Albanians in Kosovo wanted Kosovo to become a republic within

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<sup>8</sup>For a detailed discussion, see Clément (1998).

a federal Yugoslavia while the Albanians in Macedonia demanded greater political and cultural rights (see Schmidt, 2000, p. 378).

Important religious differences reinforce these cultural differences among the various Albanian communities. Islamic practices are much stronger and more deeply rooted among the Albanians in Macedonia than among Albanians in Albania and Kosovo.<sup>9</sup> In Albania, 30 percent of the population is non-Muslim—either Catholic or Orthodox (compared to 5 percent in Kosovo). Catholics and Orthodox adherents in Albania fear that the unification of the Albanian lands would lead to an increasing “Muslimization” of the country (Clément, 1998, p. 377).<sup>10</sup>

These cultural, tribal, and religious differences work against the creation of a Greater Albania. To be sure, Albanians in Albania maintain a strong interest in the fate of their kinsmen in the former Yugoslavia, especially Kosovo, but the main emphasis of successive Albanian governments since 1994 has been on internal reform and joining Europe, not the creation of a Greater Albania. Even the Berisha government—which was far more nationalistic than the current government in Tirana—did not openly promote secession of the Albanians in the former Yugoslavia or call for the creation of a greater Albanian state.

In the last several years, in fact, the Albanian government has increasingly played a stabilizing role in the Balkans. It has explicitly rejected the idea of a Greater Albania and has emphasized instead the need to make borders more open and porous. During the Macedonian crisis in spring 2001, the government went out of its way to appeal for moderation and asked NATO to patrol Albania’s borders to prevent its territory from being used for attacks on Macedonia by the insurgent National Liberation Army (see Judah, 2001, p. 16).

Moreover, the relationship between Albania and Kosovo is complicated by personal rivalries and deep-seated animosities between key leaders in both entities. During the early 1990s, ties between Rugova and Albanian President Sali Berisha were quite close. Rugova’s rela-

<sup>9</sup>On the role of Islam in Kosovo, see ICG (2001a).

<sup>10</sup>For detailed discussions of the role of Islam in Albanian society see Lederer (1994) and Trix (1995).



tions with Tirana cooled, however, after the Socialist Party under Fatos Nano returned to power and remained frosty under Nano's successors.<sup>11</sup>

The end of the Kosovo conflict and the return of the Kosovar politicians, including Rugova, to Pristina has further reduced Tirana's influence on Kosovo politics. With their return, the center of gravity of Kosovo politics has once again returned to Pristina. At the same time, the internal balance of power within Kosovo has gradually begun to shift back toward Rugova—at least for the moment—which is bound to further complicate relations between Tirana and Pristina.

In short, the real danger is not the creation of a Greater Albania, but the reradicalization of the Kosovar Albanian population and the growth of extremism in Kosovo because of the suppression of Albanian aspirations for self-determination. The longer the international community fails to deal with these aspirations and the issue of Kosovo's political status, the greater the danger that the Kosovar Albanian population will become radicalized and that extremists in Kosovo will seek to achieve their goals by violent means.

### MACEDONIA: THE CRITICAL LINCHPIN

The growing ethnic tensions between the Slav majority and the Albanian community in FYROM pose the most immediate threat to Balkan stability—and Greek security. Significant instability and unrest in FYROM could result in a massive influx of refugees into Greece and, *in extremis*, could even spark territorial claims on FYROM, reopening the age-old "Macedonian Question." It could also make resolving the Kosovo problem more difficult and could seriously complicate Greece's relations with Albania. Thus, Greece clearly has a strong strategic interest in the maintenance of a politically stable, democratic FYROM.

Ethnic Albanians constitute the largest non-Slavic ethnic group in FYROM. According to the 1994 census—which was monitored by the

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<sup>11</sup>During the Kosovo conflict, Rugova refused to visit Albania and never thanked Albania for giving shelter to thousands of Kosovars driven out of Kosovo by Milosevic's ethnic cleansing. In response, the government in Tirana recognized Thaci's provisional government, established after the Rambouillet conference. See Lani (1999).

Conference on Security and Cooperation in Europe—they constitute 22.9 percent of FYROM's population. Most observers, however, put the figure closer to 30 to 35 percent.<sup>12</sup> In the 1970s and 1980s, the Albanian community in Macedonia was subject to sharp discrimination.<sup>13</sup> Albanians in Macedonia were considerably worse off than Albanians in Kosovo. The Macedonian authorities, however, were reluctant to address the grievances of the Albanian community, fearing that any significant liberalization or move toward autonomy would inexorably lead to secession.

Since FYROM's independence (1991), relations between the Slav majority and the Albanian community have remained strained. Unlike the Kosovar Albanians, however, the Albanians in FYROM have not opted for secession but rather have sought to achieve their goals by reform from within. Their main demands have focused on increasing their representation in state institutions, changing their constitutional status to that of a constituent nation rather than a minority, establishing an Albanian University in Tetovo, and achieving recognition of Albanian as an official language.

While the Macedonian authorities have made some effort to address Albanian grievances—most recently, by accepting the establishment of the Albanian university—considerable mistrust and mutual suspicion continue to characterize interethnic relations. Many in the Slav population fear that the development of “parallel structures,” such as a separate Albanian university, may generate secessionist pressures for the western part of the country (where much of the Albanian population is concentrated) to join Kosovo. These fears are reinforced by the fact that many of the Albanian university's teaching staff were educated at the University of Pristina in Kosovo.

The Albanian political scene in FYROM, however, has undergone an important shift in the last several years. The Party for Democratic

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<sup>12</sup>The 1994 census counted only individuals who were Macedonian citizens at the time of the census. FYROM adopted a very restrictive citizenship law in 1992, which effectively excluded about 100,000 Albanians living in FYROM from the census. Moreover, in recent years, quite a few Albanians from Kosovo have emigrated from FYROM. Some 14,000 Kosovar refugees also remained after Milosevic's ethnic cleansing in 1999. At the same time, a large number of ethnic Slavs have emigrated from FYROM in recent years.

<sup>13</sup>For a detailed discussion, see Clément (1998), pp. 365–372.

Prosperity (PDP), which participated in the government in the early and mid 1990s, has been marred by internal strife and has steadily lost support, while the Democratic Party of Albanians (DPA), headed by Arben Xhaferi, has gained influence. Originally the more radical of the two Albanian parties, the DPA has softened its position in the last few years. After the 1998 parliamentary elections, it joined the government as part of the ruling coalition with the Internal Macedonian Revolutionary Organization–Democratic Party for Macedonian National Unity (VRMO-DPMNE) and Democratic Alternative.

However, Xhaferi's more moderate stance has cost him support within the Albanian community, led to the emergence of several small nationalist parties, and driven the PDP in a more radical, leftist direction. Within the DPA, Xhaferi faces a growing challenge from Rufi Osmani, the former mayor of Gostivar.<sup>14</sup> Osmani's popularity has been growing among ethnic Albanians who believe that Xhaferi has been coopted and has betrayed their cause. Moreover, Xhaferi's deteriorating health has raised questions of how long he will be able to maintain effective control and leadership of the DPA. His departure could lead to a growing radicalization of politics within the Albanian community in FYROM.

The outbreak of ethnic violence in Macedonia in March 2001 has also weakened Xhaferi's position, as has the formation of a new ethnic Albanian party, the National Democratic Party (NDP). While the leaders of the NDP deny any link to the KLA, the party is clearly designed to exploit the growing dissatisfaction with the current Albanian leadership of the two main Albanian parties, the PDP and the DPA. The NDP supports a federal solution to Macedonia's ethnic problems—a move that most members of the Slavic majority reject.

Macedonia's future—and stability in the Balkans more generally—will depend to a critical extent on the degree to which the Slav majority addresses the concerns of the Albanian community and gives them a stake in FYROM's political and economic life. Unless the Albanian community feels a stronger sense of "ownership" in the new Macedonian state, secessionist pressures are likely to grow.

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<sup>14</sup>Osmani was arrested in July 1997 and sentenced to 13 years in jail for ordering the Albanian flag to be flown from public buildings during public holidays. He was later released as part of an amnesty in February 1999.

Moreover, the Albanian population's high birthrate argues for addressing these problems now, while the Slav population is still in the majority, rather than waiting until the Albanian community has increased its numerical and political strength.

At the same time, developments in Kosovo will significantly influence FYROM's stability. Unrest in Kosovo could spill over into FYROM, aggravating ethnic tensions between the Slav majority and the Albanian community. Indeed, as the ethnic violence in Macedonia in the spring and summer of 2001 underscores, there is a close connection between developments in Kosovo and Macedonia's internal stability. Many of the Macedonian insurgents were former KLA fighters and received logistic support from Kosovo. Moreover, two of the principal founders of the National Liberation Army in Macedonia, Ali Ahmeti and Amrush Xhemajli, were founding members of the KLA in Kosovo (see ICG, 2001b, p. 8). Thus, it will be difficult to stabilize Macedonia without also achieving a satisfactory resolution to the broader problem of Albanian aspirations in Kosovo.

## THE WIDER BALKAN STAGE

Developments on the Balkan periphery will have a significant influence on prospects for stability in the Balkans. Stabilization of the periphery could help to build a firewall against the spread of instability from the Balkans westward. Conversely, instability on the periphery could make it harder to stabilize the region as a whole.

Of all the states in the region, Slovenia has made the most progress. Since achieving independence in 1991, Slovenia has moved rapidly to establish a viable market economy and a stable democratic political system. It is likely to be included in the next round of EU enlargement and is also a prime candidate to be invited to join NATO in the next round of enlargement. Thus, Slovenia is well on its way to being integrated into the most important Western political, economic, and security institutions.

Croatia's transition, by contrast, has been much slower, largely because of the policies of Croatia's former president Franjo Tudjman, which retarded reform and impeded Croatia's efforts to forge close ties to Europe. However, Croatia's prospects have improved since Tudjman's death at the end of 1999. The new Croat-

ian government has embarked on a course of major economic reform and reversed many of Tudjman's policies, especially regarding implementation of the Dayton Agreement. However, the government's austerity measures have caused widespread discontent, which could weaken support for reform and slow Croatia's integration effort.

Bulgaria's transition has been bumpy. The socialist government of Prime Minister Jan Videnov brought the country to the brink of bankruptcy in 1995–1996. Bulgaria's economic and political performance has improved significantly since 1997. However, Bulgaria still has a long way to go, both economically and politically. Bulgaria is not among the countries with which the EU intends to open accession negotiations, and its chances of joining the EU in the next decade are slim. Its chances of being included in the next round of NATO enlargement are also small. Hence, Bulgaria could be faced with a "double whammy": inclusion in neither the EU nor NATO in the near future. This could result in a political backlash that could seriously undercut support for the reformist forces in Bulgaria.

Romania's transition has been the slowest and most uneven, in large part because of the devastating legacy of Nicolae Ceaucescu's rule. The democratic opposition's November 1996 victory inspired hope that Romania would finally embark upon a course of comprehensive economic and political reform. However, reform has stagnated in the last several years, undercutting Romania's chances for both EU and NATO membership. Indeed, unless Romania makes more vigorous efforts to implement a program of comprehensive economic reform, it could fall further behind the other states on the Balkan periphery.

In short, the prospects for stability on the Balkan periphery remain uncertain. With the exception of Slovenia, none of the countries on the periphery has strong chances of gaining admission to the EU and NATO in the near future. Moreover, there is a danger that Bulgaria and Romania could be neglected as Western governments rush to buttress the new government in Belgrade and shore up FYROM in the aftermath of the ethnic violence there. This could cause a backlash in both countries and could impede efforts toward reform.

It is important that Bulgaria and Romania remain firmly committed to reform and preserve their Western orientation. As a member of both the EU and NATO, Greece is in a good position to help in this regard. Close economic political and security ties between Greece and these two countries can help to ensure that they remain firmly tied to the West and can also give them a greater incentive for reform.

#### WASHINGTON'S UNCERTAIN TRUMPET

The prospects for stability in the Balkans will be heavily influenced by the role that the United States decides to play in the Balkans in the future and the degree to which it remains politically, economically, and militarily engaged there. U.S. intervention was critical in Bosnia. Without it, there would have been no Dayton Accord. The United States also played an indispensable political and military role in ending the ethnic cleansing in Kosovo.

However, active U.S. engagement in the Balkans cannot automatically be taken for granted. American involvement in the region was largely a product of the Cold War and the geostrategic rivalry with the Soviet Union. In the early postwar period, the United States provided assistance to Greece and Turkey—and later Yugoslavia—to prevent the spread of Soviet control and influence in the region. The United States also gave important political support to Romania's attempt to pursue a more autonomous policy after 1964.

However, after the collapse of the Soviet Union, U.S. interest in the region diminished. The George H.W. Bush administration initially saw the disintegration of Yugoslavia and the ensuing crisis in Bosnia largely as a European problem.<sup>15</sup> As Secretary of State James Baker put it at the time, "We don't have a dog in that fight." Only when the Europeans and the UN proved incapable of handling the issue did the United States step up its engagement.

The Clinton administration was also initially hesitant to become deeply involved in the Balkans, becoming strongly engaged in Bosnia only in fall 1995, when the crisis threatened to seriously undermine

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<sup>15</sup>For a detailed discussion, see Larrabee (1997b).

NATO's credibility and damage President Clinton's chances of reelection. After Dayton, the Clinton administration came under strong congressional pressure to withdraw from the Balkans militarily and not to participate in the Stabilization Force (SFOR) in Bosnia. Only strong lobbying by the European allies, coupled with the threat to withdraw their forces if the United States pulled out ("in together, out together"), succeeded in convincing the United States not to withdraw.

However, congressional hostility to U.S. military involvement in the Balkans remains strong. In the summer of 2000, the Clinton administration barely beat back a congressional resolution (the Byrd-Warner Amendment) to cut off funding for U.S. troops in Kosovo. While the resolution was defeated, the congressional debate made clear that unease about the U.S. military involvement in the Balkans is widespread on both sides of the congressional aisle.

The election of President George W. Bush has created new uncertainties about the future of U.S. engagement in the Balkans. During the presidential campaign, Bush strongly criticized U.S. military engagement in the Balkans, and some of his advisors suggested that, if elected, Bush would halt the peacekeeping mission in the Balkans and seek a new "division of labor," in which the United States would be responsible for deterring and fighting wars outside of Europe, while the Europeans would be primarily responsible for peacekeeping operations in Europe (Gordon, 2000).

Such statements raised concerns in European capitals—especially in the Balkans—that Bush might reduce U.S. engagement in the Balkans or even withdraw U.S. forces altogether. However, since coming into office, the administration has backed away from much of its early campaign rhetoric and has assured its European allies that it will not undertake any precipitous withdrawals. Moreover, the outbreak of ethnic violence in Macedonia makes early withdrawal unlikely.

However, while the United States is likely to remain engaged in the Balkans, there is little chance that it will increase its military involvement. Instead, as its reaction to the crisis in Macedonia underscores, Washington is likely to look increasingly to others, especially its European allies, to pick up more of the political and

military burden for stabilizing the region, while it focuses on security problems outside of Europe, particularly Asia. It is unclear, however, whether Europe has the political will—and military muscle—to carry out this task on its own.

### THE EUROPEAN UNION AND BALKAN STABILIZATION

Regardless of what role the United States eventually decides to play, the EU is likely to be the leading player in the Balkans over the long run. The European members of the EU provide 75 percent of the economic assistance to Kosovo (versus 28 percent for the United States) and 65 percent of the troops (versus 13 percent for the United States). The EU's Stability Pact is also playing the key role in coordinating economic assistance to the region.

The EU's deepening engagement in the Balkans has raised new challenges for the EU's CFSP. At the same time, this engagement poses new challenges to the process of European integration and will compel the EU to make further changes in its integration strategy. In particular, the EU will have to synchronize the policy toward the western Balkans with the ongoing enlargement process. As Heinz Kramer has pointed out,

Brussels has to keep a certain coherence in its policy approach toward the whole region in order to prevent the development of new political and economic "borders" within the Balkans that could lay the ground for new potential conflicts (Kramer, 2000, p. 26).

There is a danger that different speeds of integration into the EU will impede the process of regional cooperation and integration. As Hungary and Slovenia move closer to EU membership, they will have to adopt EU regulations, including visa controls that could impede regional trade and cooperation. Thus, the EU will have to develop effective regional border-control mechanisms that will not prevent regional free trade and freedom of movement of persons in the region.

The need for coherence is complicated by the fact that the countries in the Balkans are in different stages of economic and political development. Slovenia, Bulgaria, and Romania have association agreements with the EU, which provide for the possibility of membership



when the countries have fulfilled the Copenhagen criteria. However, Slovenia is likely to enter the EU well before Bulgaria and Romania. The countries of the western Balkans are even further behind. With the exception of FYROM and Croatia, they do not qualify for Stabilization and Association Agreements (SAA) with the EU.

The EU was slow in responding to the challenge the disintegration of Yugoslavia posed. The EU really began to develop a coherent and comprehensive approach to the western Balkans only after the signing of the Dayton Agreement. Under the "Regional Approach" to the western Balkans, adopted in 1996, cooperation was made contingent on

- establishment of a functioning democracy, including respect for human rights and the transition to a market economy
- establishment of cooperative relations with neighboring countries
- fulfillment of the Dayton Agreement (in the case of Bosnia-Herzegovina, Croatia, and the Federal Republic of Yugoslavia).

The Kosovo conflict gave new urgency to the need to tie the countries of the western Balkans more closely to the EU. In the aftermath of the Kosovo conflict, the EU offered the countries of the western Balkans SAAs. These agreements are designed to facilitate the long-term integration of the countries of the western Balkans into EU structures. The conclusion of an SAA with a particular country is contingent upon the country's progress toward establishing a democratic system, substantial economic reform, and cooperation with its neighbors. The EU concluded an SAA with FYROM in April 2001, and negotiations on an SAA with Croatia have been initiated. Albania and Bosnia-Herzegovina still have a way to go before they have fulfilled the requirements for beginning such negotiations.

The SAAs essentially represent reshaped and streamlined versions of the former EU programs for regional assistance, rather than a new and innovative approach to the region. The only new element is the prospect of gradual integration into EU structures based on the Amsterdam Treaty and the Copenhagen criteria (Kramer, 2000, p. 32). In effect, this offers these states the same long-term perspective that the EU has offered other former communist states since

1990. In addition, it implicitly acknowledges their "Europeanness" and potential inclusion one day into the EU.

As presently conceived, the conclusion of an SAA is a prerequisite for being considered for accession to the EU. However, as Michael Emerson has pointed out, the dilemma is that the countries of south-eastern Europe need the support of a strong EU integration trajectory now, not in ten years. Otherwise there will be a stagnating transition, or worse, a relapse into chaos, repression, or violence. However, the EU cannot admit new member states faster than it can reform its own institutional structures or faster than candidate states can meet the Copenhagen criteria for membership, which may take years (Emerson, 2000).

In short, the EU will need to decide whether to stick to its current policy of insisting that the countries of the western Balkans conclude an SAA before applying for membership or to adopt a more flexible approach on the number of countries in the preaccession category. Sticking to the current policy risks slowing the transition process. But allowing the countries to apply for membership before they have met the Copenhagen criteria could emasculate and erode the accession process.

The changes in Serbia make this dilemma all the more acute. Serbia's transition opens up prospects for a comprehensive EU policy toward the Balkans. The dilemma for the EU is whether to reverse its current policy toward southeastern Europe, taking measures to maximize the speed of Serbia's transition, and integrate all of the countries of the western Balkans faster and deeper into the EU or to take a more modest approach in which Serbia is allowed to join the long queue of existing SAA and EU accession states and leave overall southeastern Europe policy on its current trajectory.

Greece has an important stake in the outcome of this debate. If EU policy is simply put on autopilot and does not adequately respond to the magnitude of the challenge, the transition process in many of the Balkan states could be undermined, and further instability could wrack the region. This could have direct consequences for Greek security. Thus, it is incumbent upon Greece to work with its European allies—especially those who are most directly affected by Balkan instability, such as Italy and Austria—to develop a more active and comprehensive European policy toward the Balkans.

Macedonia, moreover, represents a critical test for the EU's capacity for crisis management. Javier Solana, head of the EU's CFSP, has played an active and high-profile role in mediating the crisis in Macedonia. Much, however, depends on the outcome of the mediation effort. If the fragile truce worked out in July 2001 breaks down and new violence erupts between the Slav majority and the ethnic Albanian community, the EU's image as a crisis manager could be tarnished.

## NATO AND THE BALKANS

NATO's future evolution—especially its approach to enlargement—will also have an important influence on regional stability in the Balkans. At its Washington Summit in April 1999, the Alliance announced that it would review the question of further enlargement at its next summit, which is expected to be held in Prague in November 2002. A number of countries in the Alliance favor a “southern opening” that would include Slovenia, Romania, and perhaps Bulgaria. However, the next round of enlargement is likely to be more difficult than the first round for several reasons:

1. The strategic rationale for the next round is not clear. The first round was designed to stabilize Central Europe. But it is unclear what the strategic rationale for a second round is or should be. Some Alliance members think it should be to stabilize southeastern Europe, while others feel it should be to complete the stabilization of Central Europe.
2. At present there are no clearly qualified candidates ready to assume the responsibilities of membership. With the possible exception of Slovenia, none of the ten aspirants is clearly ready to assume the responsibilities of membership. And while Slovenia meets the economic and political qualifications, its inclusion in NATO would do little to enhance NATO's military effectiveness.
3. The U.S. attitude toward enlargement is not clear. While President Bush is on record as favoring enlargement in principle, the administration has yet to develop a coherent policy toward the next round of enlargement. Moreover, the U.S. Senate is likely to take a more skeptical approach to the next round of enlargement than it did to the first. In the aftermath of Kosovo, the Senate will

be more concerned about the impact of further enlargement on NATO's military effectiveness and cohesion.

4. There is no consensus among the United States and its key allies about the timing or modalities of the next round of enlargement. In the first round, the United States could count on strong German support and leadership. However, Germany does not have the same strategic interest in a second round of enlargement that it had in the first round. Thus, the United States cannot count on strong German leadership in the second round. Britain remains skeptical about an early second round, while France is more concerned about strengthening the EU's security and defense role.
5. Many allies are concerned about the effect of any further enlargement on Russia. They may be reluctant to embark upon a new round of enlargement before stabilizing relations with Russia. This is particularly true if Russian-European relations are on the upswing. Indeed, the enlargement issue could provide a convenient means for Russia to play the United States off against Europe and divide the Alliance.
6. There is a danger that the politics of enlargement could get entangled in broader concerns affecting U.S.-European relations, particularly the debate over missile defense. If differences over missile defense lead to new transatlantic tensions, it will be much more difficult for the United States to obtain European support for a second round of NATO enlargement.

Moreover, the political landscape in Eastern Europe has changed significantly since the Madrid summit.<sup>16</sup> Just after Madrid, the prevailing view was that the next round would probably include Slovenia and Romania. Slovenia remains a strong candidate. However, Romania's chances have slipped since Madrid, largely because of the continued infighting within the ruling coalition and a slowdown in economic reform.

At the same time, Bulgaria's chances have improved somewhat as a result of its strong economic and political performance since the May 1997 elections, which resulted in the emergence of a more democrat-

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<sup>16</sup>For a detailed discussion, see Larrabee (1999b).

ically oriented reformist government in Sofia. However, Bulgaria still has a long way to go before it is ready for membership, especially on the military side. Moreover, admitting Romania without Bulgaria could leave Bulgaria isolated and could have a very negative effect on the prospects for Bulgaria's democratic evolution.

Slovakia's prospects have also improved. As long as Vladimir Meciar was in power, Slovakia's chances of NATO (or EU) membership were almost nil. But the election of a democratic government in Bratislava in September 1998 has cast Slovakia's candidacy in a new light. The current government, headed by Mikulas Dzurinda, has embarked on a significant reform path and made membership in NATO and the EU a top priority. If Slovakia continues on its reformist course, it will be a strong candidate for NATO membership in the second round.

Finally, the prospects for at least one Baltic state being invited to join the Alliance at the Prague summit have significantly improved. Indeed, the possibility that all three might be invited to join at the summit cannot be excluded. This idea was literally unthinkable at Madrid, where the Baltic states had to fight hard just to be considered eligible for membership at all. Now, however, the Baltic issue is clearly on the table.

Expectations in the Balkans, however, are high. A number of countries in the region—particularly Albania, FYROM, Bulgaria, and Romania—took considerable risks in the Kosovo conflict by allowing the Alliance to use their airspace and other facilities despite the fact that public opinion was opposed to NATO's actions. These governments expect their support to bring tangible political and military benefits. NATO membership is high on their wish lists. If these expectations are not met, the pro-Western, proreform governments in many of these countries could be seriously weakened.

It is unlikely, however, that NATO will extend an invitation to any Balkan country at the upcoming NATO summit in Prague in fall 2002, with the possible exception of Slovenia, which does not consider itself to be a Balkan country. Thus, as part of its enlargement strategy, NATO needs to develop a strategy for dealing with countries that are not included in the next round of enlargement, particularly those in the Balkans. They need to be given a perspective for membership and an incentive to continue on the path of reform.

Greece could play an important role in this process by acting as the patron for the Balkan aspirants and ensuring that their concerns remain high on the NATO agenda, just as Germany did for the countries of Central Europe in the first round of NATO enlargement. Increased bilateral military cooperation with these countries could also help tie them more closely to the West and provide an impetus for reform of their military establishments. Finally, increased multi-lateral military cooperation through such organizations as the Southeast European Defense Ministers and the Southeast European Brigade could also contribute to greater regional security. While the latter organization is still in its infancy, it could eventually play an important role in peacekeeping activities in the Balkans if it continues to evolve.

### THE RUSSIAN FACTOR

Historically, Russia has had a strong interest in the region. During the 19th century, Russia regarded the Balkans as a gateway to the Dardanelles and the establishment of Moscow as a "third Rome."<sup>17</sup> After World War II, Moscow extended its influence in the Balkans, turning most of the countries in the region, with the exception of Yugoslavia, into Soviet satellites. However, Moscow's influence in the region visibly declined during the Cold War, as first Yugoslavia, then Albania, and finally Romania slipped out of the Soviet orbit, leaving Bulgaria as Moscow's only reliable ally in the region.<sup>18</sup>

Moscow's influence has continued to decline since the end of the Cold War. And all the countries in the region have oriented their policies toward the West, further reducing Russian influence. While Moscow played an important diplomatic role in the final phase of the Kosovo conflict, other factors—particularly the damage done to Serbian infrastructure by allied bombing and the fear that NATO might launch a ground invasion—were probably more important in convincing Milosevic to capitulate (see Byman and Waxman, 2000).

<sup>17</sup>On the historical dimensions of Russian policy in the Balkans, see Lederer (1962). See also Larrabee (1997a).

<sup>18</sup>For a detailed discussion, see Lendvai (1969).

Milosevic's departure has dealt a further blow to Moscow's Balkan ambitions. As long as Milosevic was in power, Moscow could portray itself as the indispensable interlocutor with Belgrade. But with Milosevic gone, Russia has lost the ability to play the Serbian card and act as a critical mediator. Serbia is increasingly likely to look west rather than east and give priority to closer ties to Euro-Atlantic institutions, especially the EU. Thus, the much heralded—and often exaggerated—Russian-Serbian “special relationship” is likely to atrophy further.

However, it is too soon to count Russia completely out of the Balkan game. If the United States withdraws from the Balkans or sharply reduces its engagement, Moscow's fortunes could brighten, and Russia could begin to play a more important role in the region. A U.S. departure would leave no adequate counterweight to Russia and could encourage Moscow to pursue a more active policy in the region. Moreover, Russian gas deliveries remain important for some countries in the Balkans, especially Serbia.

Some Greek strategists have tended to see Russia as a geostrategic counterweight to Turkey in the Balkans and have advocated that Greece develop closer ties to Russia. However, Greece should resist the temptation to try to play the Russian card. This can only backfire, causing suspicion and distrust among Greece's Western allies and its Balkan neighbors, many of whom have suffered under Russian hegemony and remain suspicious of Russian ambitions in the region. Rather, Greece should step up its efforts to help the Balkan states integrate more quickly into the EU and other Western institutions. This is the best guarantee of stability and security in the Balkans in the long run.

## **TURKEY'S NEW ACTIVISM**

Historically, Turkey has also been an important actor in the Balkans. From the 14th century until the end of the 19th century, the Ottoman Empire dominated the Balkan Peninsula.<sup>19</sup> However, with the establishment of the Turkish Republic in 1923, Turkey effectively abandoned its presence in the Balkans. During the Cold War, Turkey's

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<sup>19</sup>On the impact of Ottoman rule on the Balkans, see Todorova (1996).

main foreign policy priority was strengthening ties to the West, especially NATO and the United States. While Turkey did try to improve bilateral ties with some Balkan countries, the Balkans remained of secondary importance.

Since the end of the Cold War, however, the Balkans have reemerged as an important focal point of Turkish foreign policy. Ties with Albania have been strengthened, especially in the military sphere (see Zanga, 1993). Turkey is also helping modernize Macedonia's armed forces. The most far-reaching improvement, however, has occurred in relations with Bulgaria. During the Cold War, relations between Ankara and Sofia were marked by considerable hostility, in particular because of Bulgaria's discrimination against the Turkish minority, which constitutes nearly 10 percent of the Bulgarian population.

However, relations have improved significantly since the collapse of the communist regime in Sofia in November 1989. The rights and property of the Turkish minority have been restored, and more than half of the 320,000 ethnic Turks expelled in 1989 have returned to Bulgaria. In addition, several agreements on confidence-building measures have been signed that have helped to reduce threat perceptions and have contributed to better mutual understanding. Today, Turkish-Bulgarian relations are the best they have been since before World War II.

In the early 1990s, Turkey's more active engagement in the Balkans caused concern in some Greek quarters (see Valinakis, 1992). However, Turkey's policy in the Balkans has actually been relatively cautious. Turkey has not tried to "play the Muslim card." The Islamic Erbakan government, for instance, virtually ignored the Balkans. Turkey has also shown no inclination to take any unilateral military action in the Balkans. On the contrary, all its military actions in the region have been carried out within a multilateral context, as part of either NATO or UN operations.

Greece and Turkey actually share many common interests in the Balkans—a fact that both capitals increasingly recognized. Both want to see greater stability in the region; both favor including the countries of the Balkans, especially Bulgaria and Romania, in the next round of NATO enlargement; and both favor keeping Kosovo as



an integral part of the Yugoslav Federation. These common interests have helped to dampen the rivalry evident in the early days after the collapse of Yugoslavia. At the same time, they provide a solid basis for expanding cooperation in the Balkans.

### GREECE AND THE BALKANS: CHALLENGES AND OPPORTUNITIES

The Balkans have traditionally been a major focal point of Greek policy. Under Caramanlis, Greece played a leading role in promoting a relaxation of tensions in the Balkans.<sup>20</sup> The Papandreou government also gave Balkan détente a high priority. The disintegration of Yugoslavia temporarily interrupted this process and led to renewed friction with FYROM and Albania. However, since 1994, Greece has engaged in a broad effort to improve relations with its Balkan neighbors and enhance regional stability.<sup>21</sup>

This new active Greek policy, spearheaded in particular by Foreign Minister George Papandreou, has been remarkably successful. Since the end of the 1990s, Greece has succeeded in improving its relations with all its Balkan neighbors, particularly FYROM. Milosevic's ouster, however, presents new challenges and opportunities for Western—and Greek—policy. As long as Milosevic was in power, there were objective limits to the West's ability to develop a comprehensive policy toward the Balkans. However, his departure changes the dynamics of Balkan politics and opens up new opportunities to integrate the region into a broader European economic and political space.

Greece is well placed to play an integral role in this integration process. It is the most economically prosperous and politically stable country in the Balkans. It is the only country in the region that is a member of both the EU and NATO. No other country in the region enjoys such a unique combination of advantages. These advantages enable Greece to contribute significantly to enhancing regional sta-

<sup>20</sup>For a detailed discussion of Caramanlis's diplomacy, see Stavrou (1980). See also Veremis (1995), pp. 37–39.

<sup>21</sup>For an overview of these efforts, see Larrabee (1999a). See also Triantafyllou (1997) and Constan and Papasotriou (1997).

bility and security in the Balkans. Moreover, such a policy would allow Greece to carve out for itself a broader role in European security affairs.

Greece faces four major challenges in playing such an expanded role, as the following subsections describe.

### The Regional Dimension

The first and most critical challenge is at the regional level. Here, Greece faces a number of specific bilateral challenges:

- **Serbia.** Serbia's evolution will be critical for Greek security and for Balkan security more broadly. Without Serbia's reintegration into European structures, there is likely to be no genuine security in the Balkans. As a result of its traditionally good ties with Serbia, Greece is in a particularly good position to help Serbia reintegrate into European structures. Greek capital could play an important role in rebuilding the Serbian economy and reintegrating the country into the broader European market. Greece's experience in moving from an authoritarian to a democratic system after the collapse of the junta in 1974 could also be helpful as Serbia seeks to build a stable democracy after 13 years of repressive authoritarian rule under Milosevic.
- **FYROM.** The preservation of an independent, democratic, and politically stable FYROM is critical for Greek security and should be a top Greek foreign policy priority. Unrest in FYROM could result in a flood of refugees into Greece and, *in extremis*, could destabilize the Macedonian state. Hence, Greece needs to work with its European allies to enhance stability in FYROM. Increased bilateral economic cooperation can play an important role in facilitating this process. The stronger the economic ties, the greater the stake the Macedonian authorities will have in resolving political issues peacefully. Moreover, stronger economic ties could help to make the resolution of the name issue easier.

At the same time, Greece and its European partners should encourage the Macedonian authorities to take steps to integrate the Albanian community more thoroughly into Macedonian economic and political life. If this is not done, the Albanian

community is likely to look to illegal activities, such as drug running and arms smuggling, to solve its economic needs. This could have a spillover effect on Greece and could complicate Greece's own internal problems.

- **Kosovo.** A democratic, politically stable Kosovo is essential for Balkan—and Greek—security. The most immediate priority is to accelerate efforts toward self-rule in Kosovo. Although the local elections in October 2000 were an important step in this regard, they need to be followed by national elections. Otherwise, frustration and disenchantment among the Kosovars are likely to grow, which could play into the hands of the radicals in Kosovo.

At the same time, Greece needs to work with its Western partners to define Kosovo's final status. Autonomy is not viable over the long run. It is not acceptable to the majority of Albanians. Thus, some sort of a transitional arrangement providing for the possibility of self-determination at some point needs to be worked out. However, self-determination needs to be made contingent on fulfillment of stringent conditions, including respect for the territorial integrity of Kosovo's most immediate neighbors, especially FYROM.

Admittedly, such a solution has risks, but they are likely to be less acute than letting the current unsettled situation in Kosovo continue to fester. Failure to address the issue of Kosovo's political status is likely to lead to the reradicalization of Kosovo politics and a resurgence of instability, which could undermine the democratization process in Serbia and could possibly destabilize FYROM. Either—or both—of these developments would have serious consequences for Greek security.

- **Albania.** Greece has a strong stake in the emergence of a democratic, economically prosperous, and politically stable Albania. This is the best guarantee against an uncontrolled flow of refugees across the Greek-Albanian border. It also makes the rise of pan-Albanian nationalism less likely. Finally, it increases the prospects that the rights of the Greek minority in Albania will be respected. Greece should therefore encourage private- and public-sector investment in Albania's economic development. Greater economic prosperity will provide an incentive for Albanians to stay home and will reduce the risk of a large flow of Albanian refugees into Greece.

### **The Greek-Turkish Dimension**

The second major challenge is to expand Greek-Turkish détente in the Balkans. As noted earlier, Greece and Turkey actually have many common interests in the Balkans. Increased Greek-Turkish cooperation here would not only contribute to Balkan security in its own right but could give new momentum to the recent bilateral rapprochement between the two countries. To be sure, the outlook for dialogue on core issues—Cyprus and the Aegean—will have a more substantial effect on the overall prospects for Greek-Turkish détente. But cooperation in the Balkans can promote common interests and remove a potential source of friction. However, Ankara's ability to sustain an active regional role, in cooperation with others, will depend to some extent on the economic and political situation inside Turkey. Continued domestic crises could leave little energy for new initiatives in the Balkans.

### **The European Dimension**

The third challenge is for Greece to broaden and "Europeanize" its Balkan policy. Greece should work with its European allies to create a "European consensus" regarding measures that must be taken to stabilize the Balkans, above all in FYROM. While the changes in Serbia have reinvigorated EU policy, there is a danger that, with time, EU members may fall prey to "Balkan fatigue," especially if Serbia's transition proves difficult—as is likely. Greece needs to ensure that this does not happen. In addition, the EU still lacks a coherent regional policy. Greece should work closely with other EU members that have a strong interest in Balkan stability, such as Austria and Italy, to help forge a more coherent EU regional policy toward the Balkans.

Stabilizing FYROM should be an immediate priority. Large-scale instability in FYROM would have major implications for Greek security. Thus, Greece needs to work with its European allies to develop a coherent plan for stabilizing FYROM and integrating it into European political and economic institutions. In particular, Greece and its European allies should intensify efforts to persuade the Macedonian government to take more vigorous steps to integrate the Albanian community into Macedonian political and economic life. This is a

*sine qua non* for stability and ethnic harmony in FYROM in the long run.

### **The Transatlantic Dimension**

Finally, Greece needs to maintain good ties to the United States. The United States has played an important role in helping to stabilize the Balkans since the end of the Cold War. However, over the next five to ten years, U.S. military engagement in the Balkans is likely to decline, as the United States increasingly focuses its attention on other areas, especially Asia. It is important, however, that there be no precipitous withdrawal of U.S. troops. This could be highly destabilizing and could lead to increased violence and regional instability. If U.S. troops are withdrawn or reduced, this should occur *gradually* as part of a coherent plan, agreed upon in consultation with America's European allies, to turn more responsibility for regional security over to the Europeans as the situation in the Balkans begins to stabilize.

However, even if the United States does reduce its military presence in the Balkans, Washington is likely to remain an important geopolitical actor in the region. Thus, close ties to the United States will remain important for Greek security. These ties should not be seen as detracting from Greece's "European" orientation but rather as complementing it. The two policy tracks are mutually reinforcing. Together they enhance Greek security and enable Greece to play a more active and constructive regional role.

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**THE POLITICAL ECONOMY OF INFRASTRUCTURE  
DEVELOPMENT IN AND AROUND  
SOUTHEASTERN EUROPE**

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As Vojislav Kostunica began his term as president of the Federal Republic of Yugoslavia, the attention of policymakers quickly focused on the challenge of rebuilding the country's crippled infrastructure, which suffered throughout the 1990s as a result of neglect, sanctions, and NATO's air campaign.

The Yugoslav Republic is only the latest, if arguably the most critical, target of international efforts at rebuilding and upgrading the infrastructure of southeastern Europe. In fact, since the end of the Kosovo conflict, countries in and around the region have, under the umbrella of the Stability Pact, devised plans and allocated funds for significant transportation, energy, and telecommunications projects.

All parties agree that these initiatives will, over time, enhance stability in the region, but specific infrastructure plans are often motivated by distinct, even competitive, rationales. Some actors seek to enhance their geopolitical weight by promoting projects, as in the case of some planned transportation arteries or pipelines. Favorable routes, it is argued, could diminish a country's dependence on others to ensure flows of needed resources and would give the infrastructures' operators more influence with downstream countries. The "strategic" perspective, in part, also guides Western support of southeastern European reconstruction efforts, since the region acts as a land bridge connecting Western Europe to resource-rich Central Asia and the Middle East.

In addition, the development of regional infrastructure is a way to increase interdependence among states, facilitating greater political cooperation and fostering a shared stake in regional stability. Since a

number of key projects need to be multinational to be efficient, investments in common networks are high-profile ways to cement ties with neighbors. As described below, international projects can also be used to reaffirm a country's interest in improving relations with old adversaries.

Most important, regional states and Western donors see development of modern and efficient infrastructures as an engine for growth in a region that has been torn by war and hindered by historically low levels of economic development. The region's immediate EU member neighbors, such as Greece, also see infrastructure initiatives as opportunities for opening new markets for their own products, services, and capital.

But how does each of the multiple actors and motives shaping the policy debate on southeastern European infrastructure affect the implementation of critical projects and how coherently such projects fit together? This chapter seeks to deepen the understanding of key infrastructure initiatives in each sector and of the policy implications of such efforts.

The following discussion is divided into seven sections. The first outlines the economic backdrop against which several infrastructure projects are being planned and the economic trends and constraints likely to affect further investments. The next five sections focus on particular sectors, describing for each the key issues, prominent projects or initiatives, and the policy implications of such plans. The sectors of interest are transportation, telecommunications, electricity, oil, and gas.<sup>1</sup> The last section concludes with a series of policy implications for Greece and its partners.

## THE ECONOMIC ENVIRONMENT

The 1990s were a period of economic decline for southeastern Europe. As indicated in Figure 4.1, the real GDP of several southeastern European countries was lower in 1999 than it had been ten years earlier. On almost all indicators of economic reform, regional

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<sup>1</sup>The water sector is often included in discussions of infrastructure issues. It is not analyzed here because most water projects are implemented nationally, while this chapter emphasizes regional infrastructure initiatives.

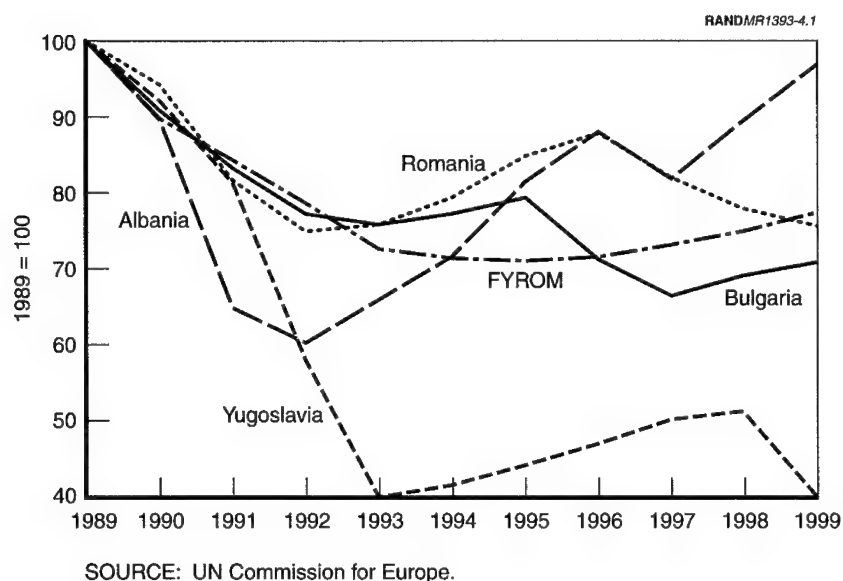


Figure 4.1—Real GDP in Southeastern European Economies, 1989–1999

economies have lagged behind their counterparts in Central Europe and the Baltic.

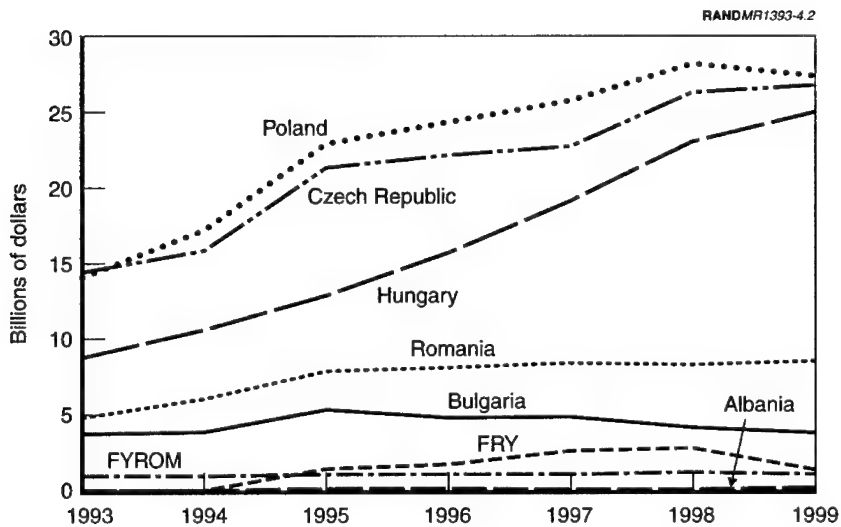
Figure 4.1 also underscores the erratic nature of regional economic development; this stop-go pattern is strongly related to the precarious macroeconomic picture for southeastern Europe. While several southeastern European states have been able to curb inflation to manageable levels, most economies continue to be plagued by high unemployment rates (the average is about 17 percent, with much higher rates in such countries as FYROM and Bosnia-Herzegovina) and chronic current account deficits (which increasing foreign debt has financed). Wars throughout the decade contributed to this underlying pattern of underdevelopment. According to recent estimates, the war in Kosovo helped turn regional GDP growth from about 1.3 percent in 1998 to –3 percent in 1999.<sup>2</sup> Military conflicts

<sup>2</sup>For a comprehensive discussion of the economic challenges facing southeastern Europe, see UN Economic Commission for Europe (1999, 2000).



and political unrest have also been critical constraints on inflows of much-needed foreign direct investment. Weak trading links among countries in the region, and between the region and Western Europe, provide a further disincentive for significant foreign direct investment.

Along with macroeconomic and financial factors,<sup>3</sup> poor transportation infrastructure has frustrated regional efforts to achieve vigorous export growth (see Figure 4.2). Because southeastern European economies are small, making trade important, export growth is critical for sustained GDP growth.



SOURCE: UN Commission for Europe.

Figure 4.2—Merchandise Exports, 1993–1999, Economic Performance and Infrastructure

<sup>3</sup>Some of the causes of poor export performance are strong currencies; wars and instability, which have diverted trade and trade routes; lack of competitiveness in the export mix; and an unsophisticated financial sector. The author is grateful to F. Stephen Larrabee, Sophia Clement, Keith Crane, Ettore Greco, Ian Lesser, Jerry McGinn, and Bruce Pirnie for these and several other insights presented in this chapter.

Poor infrastructure is both a cause and a product of the region's disappointing economic performance. Conflict has not been the only thing hampering the quality and reliability of the region's infrastructure systems. Maintenance of existing networks has been neglected, in part because economic decline has decreased government revenues. Equally important, southeastern European governments have generally been unwilling to liberalize the infrastructure sectors swiftly, thereby putting the burden of maintenance and modernization on private investors.

Despite these problems, the infrastructure landscape in southeastern Europe is likely to change significantly in the coming years. The Kosovo conflict has prompted Western financial institutions to highlight infrastructure projects as important items in the southeastern European development agenda and has helped attract the economic and political capital such projects require to succeed. Changes in EU market policies, such as deregulation of the energy and telecommunications sectors, are likely to stimulate regional liberalization and, consequently, new investments. Finally, energy-related developments in the adjacent Black and Caspian sea regions will affect the Balkan peninsula. The next sections discuss sectoral issues in greater detail, highlighting the economic and political implications of key infrastructure initiatives under way or under discussion in southeastern Europe.

## TRANSPORTATION INFRASTRUCTURE

Upgrading the region's transportation infrastructure has become the focus of several Stability Pact initiatives: 71 percent of the Quick Start construction projects approved in 2000 are devoted to this sector. The emphasis on transportation is understandable, since the effective capacity and density of road networks in southeastern Europe are well below European standards. Only Bulgaria can claim a relatively comprehensive network of four-lane highways. The Yugoslav Republic's north-south artery to Greece and the motorway linking Belgrade to Zagreb and Ljubljana were also constructed to support more-intense traffic. But these routes have also suffered from lack of maintenance and physical destruction. Such trends have affected the region's relatively rudimentary system of smaller highways and secondary roads even more deeply.

Southeastern Europe's rail networks do not compare favorably with those in Central Europe, although existing railway lines constitute less of a regional transportation bottleneck than do the roads. Having said that, such countries as FYROM and Albania greatly need railway system improvements.<sup>4</sup> Officials in Skopje are especially keen to diversify their access to the international railway system after the Greek embargo of the mid-1990s, during which several FYROM firms (especially in heavy industries) wishing to export or import faced prohibitive transportation costs.

Ports are also a key part of the region's transportation networks, since most countries (with the exception of FYROM and Bosnia-Herzegovina) have a coastal outlet on either the Adriatic or Black sea. Soviet-era investments in ports made these facilities less obsolete than other transportation infrastructure, but they need additional funding to expand their capacity and modernize.

### Specific Programs

The development of the transportation infrastructure in southeastern Europe will be largely shaped by the Pan-European Transportation Corridors initiative, sponsored by the EU and international lending institutions. These multinodal (road, rail, and water) transportation arteries are designed to serve as the major channels of exchange within Europe and between Europe and adjacent regions. Table 4.1 lists the major nodes on each corridor and branch of the entire system. Six of the ten designated corridors involve countries in southeastern Europe; this portion of the system is shown in Figure 4.3. Corridors 5 (Hungary to Croatia), 9 (Romania to Alexandroupolis, Greece), and 10 (Austria to Thessaloniki, Greece) are the major north-south routes, while the major east-west routes are corridors 4 (Romania to Turkey, with a branch leading to Thessaloniki), 7 (following the Danube river, from Hungary to Romania), and 8 (Albania to Bulgaria).

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<sup>4</sup>In general, these two countries have the least-developed transportation networks. Albania's poor infrastructure is a legacy of Hoxha's regime, while FYROM's poor East-West connections are a result of the former Yugoslavia's emphasis on north-south links with Serbia.

These corridors represent the EU's long-term transportation strategy, and investments will be made over a long period. Short-term investments will focus on critical bottlenecks. Most efforts in the region have thus far been directed toward the Albanian and FYROM portions of corridor 8. The Albanian section of corridor 8 benefits from a \$200 million credit from the EU; projects include a road connecting the Adriatic port of Durres (which in turn is being modernized thanks to a \$23 million grant from the World Bank) with Qafe on the FYROM border. To support FYROM's growing reliance on the Greek port of Thessaloniki, the European Investment Bank (EIB) has agreed to finance the portion of corridor 10 running from Skopje to the Aegean port (Reid, 1999). The EIB is also lending funds for a highway between Durres and Tirana (Economist Intelligence Unit [EIU], 1999–2000a, and 1999a), while a direct rail connection between FYROM and Bulgaria is also being constructed. The Danube (corridor 7) will shortly benefit from international funding aimed at restoring unimpeded transit to the Black Sea. The clearing of debris obstructing the passage of transport ships should be completed in 2001.

Other key projects not directly related to the Pan-European Transportation Corridors include a planned north-south highway from Trieste to the Greek frontier at Igoumentisa through Slovenia, Croatia, Montenegro, and Albania. The countries this route affects would like the EU to designate the highway as a new corridor, although the EU response has been cool so far (EIU, 1999c). Starting at Igoumentisa, Greece's Egnatia road will constitute an important motorway connecting Greece to the Turkish border (passing through Thessaloniki). The Greek government is also contemplating funding a rail line from Pogradec (on Lake Ohrid) to Florina, the starting point of another rail line to the port of Thessaloniki (EIU, 1999–2000a).

### **Policy Implications**

As with all other infrastructure sectors, the viability of particular transportation projects is likely to be affected by both economic considerations and strategic priorities. While Milosevic was still in power, Western transportation planners focused much of their attention on routes that bypassed Serbia, such as corridors 4 and 8.

Table 4.1

## Pan-European Transportation Corridors

Corridor 4	Berlin and Nuremberg (Germany) to Prague (Czech Republic) to Budapest (Hungary) to Constanta (Romania), Thessaloniki (Greece), and Istanbul (Turkey)
Corridor 5	Venice (Italy) to Trieste (Italy) and Koper (Slovenia) to Ljubljana (Slovenia) to Budapest (Hungary) to Uzgorod (Ukraine) to Lvov (Ukraine)
Branch B	Rijeka (Croatia) to Zagreb (Croatia) to Budapest (Hungary)
Branch C	Ploce (Croatia) to Sarajevo (Bosnia-Herzegovina) to Osijek (Croatia) to Budapest (Hungary)
Corridor 7	Danube river and ports
Corridor 8	Durrës (Albania) to Tirana (Albania) to Skopje (FYROM) to Sofia (Bulgaria) to Varna (Bulgaria)
Corridor 9	Helsinki to St. Petersburg to Moscow and Pskov to Kiev (Ukraine) to Ljubasevka to Chisinau to Bucharest to Dimitrovgrad to Alexandroupolis
Corridor 10	Salzburg (Austria) to Ljubljana to Zagreb to Belgrade to Nis to Skopje (FYROM) to Veles to Thessaloniki
Branch A	Budapest (Hungary) to Novi Sad to Belgrade
Branch B	Nis to Sofia (on Corridor 4 to Istanbul)
Branch C	Veles to Bitola to Florina to Via Egnatia

SOURCE: EIB

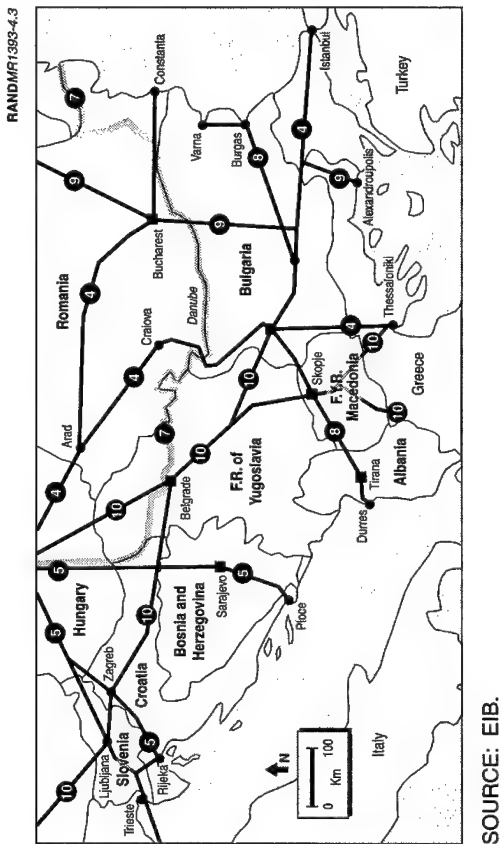


Figure 4.3—Transportation Corridors in Southeastern Europe

The change in the leadership of the Yugoslav Republic has reinforced earlier concerns about competition and duplication. Romanian and Bulgarian officials fear that progress on corridor 4 will slow considerably as investments are redirected toward corridor 10, a shorter north-south route. Greek observers are concerned that corridor 8 will compete with Greece's east-west Egnatia motorway project.<sup>5</sup>

For the most part, these fears are exaggerated. To be sure, the Yugoslav Republic's central location on the Balkan peninsula and its potential to become a regional transportation hub will prompt Western investors to focus on facilitating road transit on corridor 10, as well as on other critical improvements to Serbia's road and rail networks.<sup>6</sup> At the same time, however, it is very unlikely that corridor 10 investments will displace those earmarked for corridor 4, both for strategic and economic reasons. Strategically, funding sources, such as the EU, will want to support a series of north-south options to hedge against future instability in the region. From an economic standpoint, the attractiveness of corridor 4 depends only fractionally on the potential for blocked access to corridor 10. In fact, such corridors are not mere "pipelines" channeling traffic from Europe to areas at the edge of southeastern Europe but can also provide significant benefits to local firms that depend on low transportation costs to compete successfully and grow, inside and outside a particular country. Moreover, since investment decisions are made on particular sections of a corridor, analyses of viability for an entire route can be misleading.

Similarly, corridor 8 and the Greek Egnatia road can be undertaken in a way that minimizes duplication. The former is necessary, given

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<sup>5</sup>For instance, Axel Stiris Wallden (1999, p. 110) argues that the Via Egnatia is more feasible than corridor 8 and assumes that the two projects are mutually exclusive.

<sup>6</sup>Planners have put a high priority on funding and completing certain near- to medium-term roadway projects: the trans-Serbia motorway, running some 300 km from the Hungarian border to the Bulgarian and FYROM borders; a 570-km roadway between Belgrade and Bar, Montenegro, which is Yugoslavia's sole port; the roadway between Belgrade and the border with Croatia, for 40 km; and a roadway from Belgrade to the Romanian border, a distance of 100 km. Another goal is completion of a series of railway projects by 2010: modernizing the railway network from the Hungarian border to Belgrade and the Belgrade-to-Nis railway to the twin-track standard and making major repair and electrifying the railway between Nis and the Hungarian border. See EIU (2000-2001).

the lack of basic transportation networks in FYROM and Albania and, when complemented by robust transportation links between Greece and corridor 8 countries, it will benefit firms operating in northern Greece that are already active in cross-border trade. Indeed, as long as the Yugoslav Republic (including Kosovo) remains politically volatile and has a damaged infrastructure, linking Albania and FYROM to *both* Italy and Bulgaria on the east-west axis and to Greece on the north-south axis represents the best chance of keeping these countries engaged in regional cooperation and development.

Finally, policymakers need to consider a broader resource allocation issue when contemplating financial support for transportation projects in southeastern Europe. New projects are desirable and necessary when there is little existing infrastructure, such as in Albania. At the same time, however, a great number of transportation problems can be tackled effectively not by building new roads but rather by devoting more funds to maintenance and expediting border procedures.<sup>7</sup> Allocating resources in a way that strikes the right balance between building new networks and improving existing ones is key for this and other infrastructure sectors.

## TELECOMMUNICATIONS INFRASTRUCTURE

As in the transportation sector, southeastern Europe's telecommunications networks are relatively underdeveloped. Fixed and mobile telecommunications line densities vary significantly across countries, with Croatia and Bulgaria on the high end of the distribution and Albania on the low end. Penetration is generally low, largely because network investment was insignificant for most of the 1990s (as a result of low tariffs and low bill collection rates) (World Bank, 2000). The Yugoslav Republic, whose telecommunications networks compared favorably with those of its neighbors for most of the 1990s, now has to embrace basic reconstruction tasks in order to repair the damage from NATO air strikes.

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<sup>7</sup>Two key efforts to remove bottlenecks at border crossings are the Southeast Europe Cooperative Initiative and the World Bank's Trade and Transport Facilitation in Southeast Europe project.



### Specific Initiatives

While there have been government-sponsored infrastructure initiatives, such as fiber-optic trunk lines connecting Europe to Asia and the Balkan countries to each other, the liberalization of telecommunications markets in southeastern Europe has prompted the most significant developments. In the late 1990s, a number of governments decided to privatize their existing telecommunications companies to raise funds and spur foreign investment in this sector. The trend toward privatization has sparked the interest of foreign telecommunications firms; Hellenic Telecommunications (OTE) in particular is emerging as a key player. The Greek telecommunications operator is seeking to consolidate its ownership in southeastern European counterparts to create an integrated Balkan network. OTE already owns 35 percent of Romania's Romtelecom and 20 percent of the Yugoslav Republic's Telekom Srbija. Along with KPN, a Dutch telecommunications provider, OTE sought to acquire a joint 51-percent stake in the Bulgarian Telecommunication Company for a reported \$510 million, although negotiations have been suspended (EIU, 2000c). OTE has also expressed an interest in buying one-third of Makedonski Telekomunikacii, FYROM's state-run telecommunications company, and 25 percent (worth about \$800 million) of Croatia's Hrvatske Telekomunikacije (EIU, 1999–2000b). The process of privatizing Makedonski Telekomunikacii began in early 2001 with the sale of a majority stake to MATAV, the Hungarian telecommunication company. Albania's fixed-line monopoly, Albtelecom, is expected to be privatized in 2001.<sup>8</sup>

### Policy Implications

Poor telecommunications systems can significantly hinder growth, given their importance in today's business environment. Foreign involvement is critical because it transfers capital and know-how to investment-starved telecommunications networks in southeastern Europe. The plans of foreign carriers, such as OTE, to create regional networks will add coherence to a market that has hitherto been both small and highly fragmented.

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<sup>8</sup>The Albanian government expects the full market to be liberalized by 2003. See EIU (2000b).

In fact, it is very likely that market dynamics will eventually determine the regional telecommunications landscape. Even the Greek government's full ownership of OTE is likely to be diluted soon, as Deutsche Telekom and Telecom Italia consider acquiring a 20-percent stake in the company (*Telecoms Deal Report*, 2000). More generally, liberalization in and around the region is expected to unleash flows of private funds (both for fixed-line and mobile telephony) that will eventually dwarf public investment.

The challenge for governments, therefore, will not be deciding where and how resources should be allocated but rather on establishing a robust regulatory framework that will encourage much-needed inflows of capital to improve and expand existing infrastructures. In parallel with private-sector initiatives, southeastern European states may want to consider a World Bank proposal for the creation of an integrated regulatory framework for regional telecommunications. This would also entail the establishment of "clubs" to promote cross-border service provision and even the possibility of eliminating international call surcharges for cross-border calls made within the "clubs" area (World Bank, 2000).

## ELECTRICITY INFRASTRUCTURE

Southeastern Europe's power-generation sector is more developed than its transportation and telecommunications networks—mainly as a result of high Communist-era priorities on electric power and universal coverage. In fact, as energy-intensive industries declined in importance after the end of the Cold War, some countries in southeastern Europe have far more generating capacity than their domestic markets require. Romania, for instance, can generate twice as much power as it currently consumes. Overcapacity is coupled with inefficiency: While consumption per capita is approximately half that of Western European countries, consumption per unit of output actually exceeds the OECD-Europe average by a factor of 2 to 3 (EIB, 2000).

Against this backdrop, the reintegration of southeastern Europe's national networks with each other and with Western Europe's system, the Union for the Coordination of Transmission of Electricity, has been high on the agenda. A host of feasibility studies and preliminary bilateral interconnection agreements have led to the recent approval of plans to create, by 2006, a regional electricity market

connecting Albania, Bosnia-Herzegovina, Bulgaria, FYROM, Greece and Romania (*Sofia BTA*, 1999). The Yugoslav Republic will most likely be added to these plans in the near future, since the NATO bombing cut its international and long-distance power connections.<sup>9</sup>

### Specific Initiatives

Three principal rationales are driving the push toward interconnecting the region's power markets. First, interconnection allows greater network efficiency, including stability improvements, sharing of spinning reserve, and cost savings. Second, some countries wish to diversify their sources of imported electricity for strategic reasons. Greece, for example, is keen to establish alternative connections to Western Europe's system because the original line through Serbia was rendered inoperable in the 1990s. The option of establishing a link to the Italian grid will soon become a reality with the recent approval of an underwater link between Puglia, Italy, and Ipiros, Greece. Additional lines may cross the Adriatic to augment this link in a few years (Energy Information Administration [EIA], 1999b).

Third, better network integration gives countries with large overcapacity a greater ability to export surplus electricity. Other countries, such as Albania and Bosnia-Herzegovina, also stand to gain from integrated electricity markets given their considerable potential for hydroelectric power generation (EIU, 2000a). Most power-rich countries are eager to export electricity to Turkey, whose energy demand is projected to grow substantially. Bulgaria is already supplying power to Turkey and plans to expand its exports by building additional facilities built in conjunction with Turkish construction firms (*Sofia BTA*, 2000b). Romania also wants to provide electricity to Turkey, although negotiations for transmission of Romanian electricity on Bulgaria's grid have proven thorny (*Sofia BTA*, 2000a). Improving ties between Athens and Ankara were instrumental for the approval of a plan to connect Greece's power grid to Turkey's. The agreement led to the formation of a consortium of Greek and Turkish companies to build a natural gas power plant in Greece that will serve the Turkish market (*Ankara Anatolia*, 2000a).

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<sup>9</sup>Before the Kosovo conflict, the Federal Republic of Yugoslavia had devised plans to augment capacity by building new plants with a capacity exceeding 3,000 MW and upgrade existing facilities. Most of these have now been shelved (see EIU, 2000–2001).

Liberalization of EU's own electricity market is also likely to help shape southeastern Europe's power-generation sector. EU deregulation will prompt existing operators to expand internationally, including in southeastern Europe. Italy's ENEL agreed to partner in 1999 with the Greek firm Prometheus Gaz to develop and implement energy projects in and around Greece. In addition, other Greek power suppliers are becoming increasingly involved in southeastern Europe. The Greek Public Power Corporation has established a presence in Romania and, in conjunction with other Greek firms, has won a contract to construct, upgrade, and maintain FYROM's power stations and distribution network.<sup>10</sup>

### Policy Implications

Southeastern Europe's future electricity market will be more interconnected today's. Interconnection brings economic and political advantages. Linking the Greek and Turkish grids, for instance, could help satisfy a real need for more power in Turkey and serve as a highly symbolic affirmation of improving political ties. At the same time, however, an integrated electricity market is not a panacea for all the problems afflicting southeastern Europe's power-generation sector. While such markets as Turkey's will serve as sources of export revenue for some countries in southeastern Europe, they will not be able to absorb all the excess capacity; moreover, EU electricity providers will likely prove to be tough competitors.

The development of regional electricity sector projects should promote efforts that, in addition to being politically useful, can also offer a high-enough rate of return and generate significant efficiencies. The chances that economic logic will prevail as the leading criterion for investments are going to improve as regional electricity markets become progressively liberalized. Several governments in the region, such as those of Albania and FYROM, have already announced plans to deregulate their electricity sectors to conform to agreements with the EU.

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<sup>10</sup>The FYROM government and the Greek company Biolignit have also signed a 10-year, \$300 million agreement under which FYROM will import lignite from Greece in exchange for power produced from the lignite. See EIA (1999b).

## NATURAL GAS INFRASTRUCTURE

With the exception of Albania, all southeastern European countries have a natural gas link to Russia, from which they obtain the most of their gas. These systems, however, are not integrated with alternative suppliers or with each other. According to the World Bank (2000),

the full market potential for gas can only be realized with the construction of new gas transport pipelines, the further development of gas distribution infrastructure and greater integration of the gas markets in the region.

To create a more efficient and integrated gas market, there are plans to augment the existing pipeline network with a number of new trunks. As Figure 4.4 shows, several of the existing and proposed pipeline routes originate in Russia and some in Western Europe, while others are expected to deliver gas from the Caspian Sea and the Middle East.

### Gas from Russia

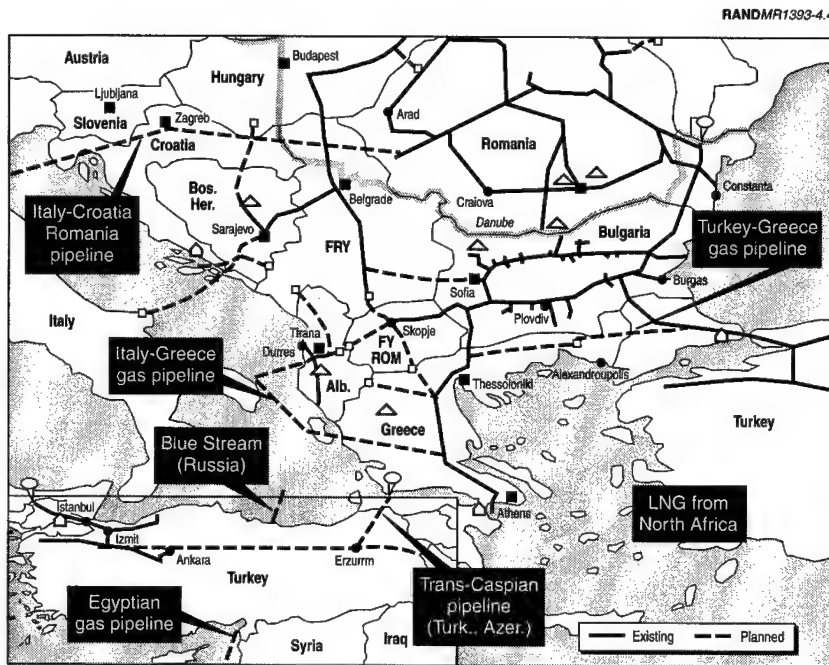
Russian natural gas reaches southeastern Europe through two distinct routes. The first is a system of pipelines connecting Russia with Hungary, and eventually with the former Yugoslav republics. The second route is a north-south trunk line crossing Romania and Bulgaria into Turkey, with branches delivering gas to FYROM and Greece.<sup>11</sup>

Bulgaria, in its quest to become a key distributor of Russian gas in the region, has signed a memorandum to build additional pipeline capacity so that more Russian gas can flow to Greece, Turkey, and FYROM.<sup>12</sup> According to other plans, Bulgaria would also play a role

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<sup>11</sup>Russian gas has been flowing to Greece since 1997, covering approximately 15 percent of its energy needs. Prometheus Gas, the joint venture between Russia's Gazprom and its Greek partner, the Kopelouzos group, is considering extending the pipeline northward to Albania. See EIA (1999b).

<sup>12</sup>Bulgaria's relationship with Gazprom has at times been rocky: The two parties have disagreed over arrangements for transporting Russian gas exports to the Balkans and Turkey. Gazprom has also complained that Bulgaria has delayed construction of the



SOURCE: EIB.

**Figure 4.4—Existing and Planned Gas Pipeline Network in Southeastern Europe**

in supplying Russian gas to the Yugoslav Republic with a pipeline linking its network to Serbia proper, Montenegro, and eventually Kosovo. The NATO air strikes disrupted Serbia's current link with the Russian gas network through Hungary, and Belgrade sees an alternative southern route as a way to lessen its dependence on a single conduit. The future of this pipeline remains uncertain, largely because of Russian reluctance to channel more gas to the Yugoslav market.<sup>13</sup> The continuing potential for instability in Kosovo is also

transit facilities necessary for expanding Russian gas deliveries to southeastern Europe (ITAR-TASS, 1999).

<sup>13</sup>Belgrade has defaulted on a mounting debt to Gazprom several times, forcing the latter to cut off supplies.

working against further consideration of pipelines linking this territory with Serbia proper and Montenegro (EIU, 2000–2001).

To better serve booming markets, such as Turkey's, and to curtail Bulgaria's hold on its exports, Gazprom is promoting Blue Stream, an underwater pipeline linking Russia and Turkey across the Black Sea. Blue Stream was approved in 1997 and is being built in conjunction with Italy's ENI.<sup>14</sup> Blue Stream competes with other projects to deliver gas to Turkey (discussed below). Despite these challenges, Blue Stream has begun construction, supported by loan guarantees from Italy's and Japan's export-import banks (*Petroleum Economist*, 2000).

### Gas from Western Europe

Some southeastern European countries keen to diversify their sources of gas are seeking to integrate their networks with those of Western Europe. Croatia is hedging its natural gas bets—after experiencing supply problems during the conflict in Bosnia—by building a pipeline connecting its system with Italy's.<sup>15</sup> Romania also sees gas imports through Italy as an alternative to Gazprom; the Romanian state gas group, SNGN Romgaz, signed an agreement in 1998 to pipe gas from Italy through the Croatian gas network (Beckman, 1999). Romania's diversification strategy may also lead to the construction of a pipeline linking to Hungary and eventually to the northern European gas distribution system. Officials in Bucharest have argued that this pipeline could eventually be extended to Bulgaria and the Yugoslav Republic (*Russian Oil and Gas Report*, 2000).

The EU has also sanctioned plans to build a \$600 to 800 million gas connection between Greece and Italy. Gas is expected to be flowing beneath the southern Adriatic by 2002.<sup>16</sup>

<sup>14</sup>In April 2000, a \$1.8-billion funding agreement was reached for the Blue Stream pipeline. Construction work began earlier that year (see *Rome ANSA*, 2000).

<sup>15</sup>The deal between Croatia's energy monopoly INA and its Italian counterpart ENI was signed in November 1997 and calls for supplying 3 billion m<sup>3</sup> of natural gas annually (*Business Eastern Europe*, 1998).

<sup>16</sup>If this pipeline is not completed, it is possible that another liquefied natural gas terminal will be constructed in Greece (see EIA, 2000b).

### Gas from Central Asia and the Middle East

Resource-rich countries in Central Asia, such as Azerbaijan and Turkmenistan, are seeking avenues for transporting their gas to Europe that bypass the Russian network, in response to Gazprom's past reluctance to grant inexpensive access to its pipelines (*Sofia Kontinent*, 1998). One of the routes bypassing Russian territory would bring Turkmen gas first to Turkey, then possibly to Europe, under the Caspian Sea and via Azerbaijan (which could also pump its own gas) and Georgia (Shenoy, Gulen, and Foss, 1999). The United States and Turkey support the so-called Trans-Caspian Pipeline (TCP) as part of plans to bring Caspian oil and gas to international markets, while avoiding passage through Russia or Iran. The fate of this project remains unclear, however. In late 1999, Turkmenistan signed a contract to export a large amount of its gas production through Russia, and negotiations for expanding such an agreement are ongoing. Moreover, Western companies in the TCP consortium have been dissatisfied with Turkmeni terms and conditions for the deal, and some have recently withdrawn their support (*Hart's E&P Daily*, 2000).

Pipelines channeling gas from Central Asia, through the TCP or eventual substitutes, could eventually expand to include Greece, after its gas network is integrated with Turkey's. A Greco-Turkish gas link became more likely after the July 2000 establishment of a joint working group of Greek, Turkish, and European Commission energy officials. However, this initiative remains at the early planning stages, and the implementation of concrete projects remains a medium-term prospect (*Ankara Anatolia*, 2000c).

Further gas export options for Turkey, and indirectly for southeastern Europe as a whole, may come from Egypt's deepwater offshore fields. In early 2000, these two countries signed a protocol calling for Turkey to purchase Egyptian natural gas, either through an ambitious 1,200-km pipeline or by ship, in liquefied form (analysts have raised serious questions about the economic feasibility of this project, however) (*Cairo MENA*, 2000). Another possible, if unlikely, source of natural gas for Turkey is Syria. In a recent statement, a Turkish government official claimed that, if significant gas reserves were to be discovered in Syria, these could be connected to the planned terminal at the Turkish city of Iskenderum (*Ankara Anatolia*, 2000b). Finally, Algeria



is emerging as an important direct gas supplier to southeastern European markets; terminals have recently been built in Greece and Romania for the import of Algerian liquefied natural gas (LNG).<sup>17</sup>

### Policy Implications

Unlike oil, gas is essentially a regional, rather than global, commodity. Still, the expansion of the gas transit infrastructure across Eurasia, the Middle East, and Europe is creating a larger, more diverse, and more interdependent system of supply. Southeastern Europe is set to occupy an increasingly important place in this network in the near future.

Unsurprisingly, both economic and political objectives drive gas pipeline projects in southeastern Europe. Strategically, countries that perceive a risk in heavy dependence on a particular gas source find diversification of the supply to be a source of security. Moreover, the construction of pipelines between two countries looking to cement their ties, such as Turkey and Turkmenistan or Greece and Turkey, is often politically advantageous.

A more deeply integrated gas network is economically beneficial in principle, since it would allow matching supply and demand more competitively. This, however, does not automatically make all the projects described above viable. In fact, unlike some other investments discussed here, natural gas pipelines are primarily financed and built by private companies, which demand a high enough rate of financial return to justify involvement. Some of the pipelines under discussion would not meet that criterion, especially when implemented in conjunction with others (such as Blue Stream and the TCP). To be sure, demand for gas will increase as these countries move away from more-inefficient coal-burning factories; however, the potential markets are relatively small, and increasing competition from Western Europe will probably diminish the potential gains from selling surplus gas to third parties.

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<sup>17</sup>Greece also agreed to purchase 600 million m<sup>3</sup> of Algerian LNG per year over a 20-year period (see EIA, 1999b).

## OIL INFRASTRUCTURE

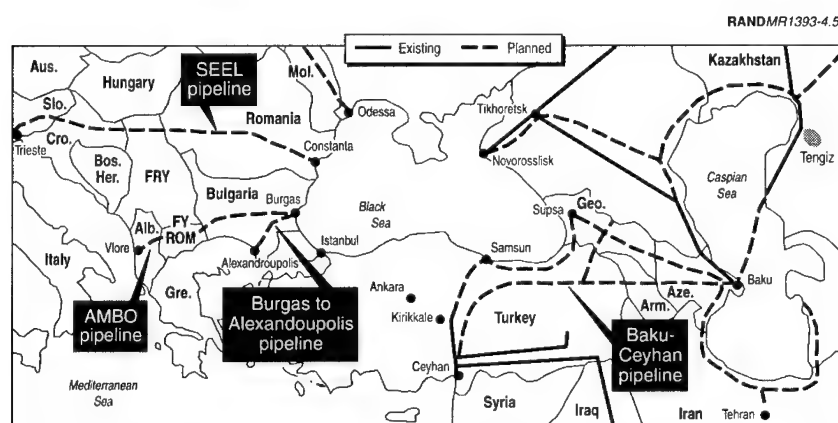
The southeastern European oil sector is likely to change significantly. While some of the proposed oil infrastructure projects will be geared toward meeting the region's energy requirements, other pipelines crossing southeastern Europe will instead be built to bring crude oil from Russia and Central Asia to Western markets. In particular, Bulgaria and Romania are promoting their Black Sea ports of Burgas and Constanta as alternatives to the already-crowded Bosphorous Straits.

Four planned routes for bringing Caspian oil westward, either from Black Sea ports or from Turkey's Mediterranean coast (all bypassing the Bosphorous) are particularly relevant to this analysis: (1) Baku, Azerbaijan, to Ceyhan, Turkey; (2) Burgas, Bulgaria, to Alexandroupolis, Greece, on the Aegean; (3) Burgas to Vlore, Albania, on the Adriatic; and (4) Constanta, Romania to Trieste, Italy. As Figure 4.5 illustrates, all routes except Baku to Ceyhan cross the Balkan peninsula. Another significant oil infrastructure project is the oil pipeline that will link Thessaloniki to Skopje. Each of these initiatives is reviewed in the subsections below.

### Baku-Ceyhan

Baku to Ceyhan is one of three options for the main export route for oil from the Caspian Sea region. This pipeline, which the British Petroleum-Amoco-led AIOC consortium is considering, would begin moving oil from Azerbaijan and the eastern Caspian Sea to Turkey's Mediterranean coast by 2004–2005. AIOC is also considering such other options as pipelines connecting Baku to the Georgian port of Supsa and Novorossiysk in Russia.

The path toward development of the Baku-Ceyhan pipeline has been tortuous, despite strong support from Turkey and the United States. The project's eventual profitability has been the subject of much debate. On the cost side, Turkey believes that the pipeline could be built for \$2.7 billion, but AIOC has argued that it would take as much as \$3.7 billion. On the revenue side, the oil companies have claimed that the pipeline is not likely to have enough oil volume to justify its capital cost. The most influential members of AIOC have hinted that



SOURCE: Adapted from Oil and Gas Journal.

Figure 4.5—Existing and Planned Oil Pipelines

they would prefer expanding the Baku-to-Supsa pipeline.<sup>18</sup> Georgia, however, has resisted upgrading the Baku-Supsa route, under heavy pressure from Turkey and the United States. For its part, Moscow would like AIOC to rely on the existing pipeline from Baku to Novorossiysk and recently proposed expanding this pipeline's capacity and diverting it from Chechnya to Dagestan.<sup>19</sup>

The likelihood that the pipeline will be constructed was recently increased by AIOC's discovery of the Shah Deniz gas-condensate in Azeri waters in 1999. This large gas field could help alleviate the oil-reserve shortfall for the Baku-Ceyhan oil line and make the project financially viable.<sup>20</sup> Moreover, the recent agreement among Azerbaijan, Georgia, and Turkey on the regulatory formula for the

<sup>18</sup>AIOC has suggested that proven reserves in Azeri oil fields are not, by themselves, sufficient to make Baku-Ceyhan economically viable (they could supply 800,000 barrels per day, while the consortium indicated a minimum of 1 million) (Demirmen, 1999).

<sup>19</sup>This has run into some problems however. Given the high viscosity of AIOC's oil, the Russian pipeline operator has decided to mix it with lower-grade oil, devaluing the crude (see Useinov, 2000).

<sup>20</sup>On the other hand, adding a gas line to the Baku-Ceyhan route may make the TCP less feasible.

project—including the tariffs Georgia and Turkey will apply to the transiting crude—has added to this option's momentum (*Oil & Gas Journal*, 2000). The project's viability will remain uncertain, however, until the sponsor group of governments, oil companies, and international lending institutions secures appropriate financing. Beyond this, there are larger questions surrounding the future of Western relations with Iran and the possibility of a lower-cost route that would bring Caspian oil to world markets via the Persian Gulf—an option with strategic complications of its own. The future feasibility of an Iranian route could affect the commercial and political calculus for Baku-Ceyhan.

### **Burgas to Alexandroupolis**

In June 1995, Greek, Bulgarian, and Russian officials signed a protocol for a \$700 million trans-Balkan pipeline to transport Caspian oil to the Aegean. According to the plan, Russian and Kazakh oil shipped from Novorossiysk would be transported across the Black Sea to Burgas and then travel to Western markets through a 280-km pipeline ending at the Aegean port of Alexandroupolis. The pipeline could potentially be a conduit for Caspian crude shipped from the Georgian port of Supsa.

While this scheme could prove economically viable, it has yet to be implemented, given differences between Greece, Bulgaria, and Russia over expected volumes of Russian crude, transit fees, and sharing of capital costs. Some progress has recently been made with the completion of feasibility studies and the creation of a formal consortium—the Transbalkan Pipeline Company—for the construction and operation of the pipeline.<sup>21</sup>

### **Burgas to Vlore**

Bulgaria's oil-sector ambitions are also reflected in its support for the Albania-Macedonia-Bulgaria Oil Corporation (AMBO) pipeline. The AMBO pipeline is expected to be 913 km long and would cross the

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<sup>21</sup>Russia controls half the company's equity; private Greek firms hold a 30-percent stake; the Greek and Bulgarian State oil companies each hold 5 percent; and U.S.-based ChevronTexaco holds 10 percent (see EIA, 2000a).

Balkans from Burgas to the Albanian port of Vlore on the Adriatic at an estimated cost of about \$1 billion. Like the Burgas-Alexandroupolis line, the AMBO project would carry Russian and Caspian oil transported across the Black Sea and on to the markets of Western Europe and North America. AMBO officials have claimed that the pipeline could also be extended from Vlore to the Italian port of Brindisi.

This project is in the planning stages, but construction is scheduled to start in 2001 or 2002. AMBO has secured letters of acceptance from the governments of Albania, Bulgaria, and FYROM and has attracted the interest of large oil industry investors, such as ENI, BP, and Lukoil, and financing institutions, such as the EBRD (see EIA, 2000a). Despite concerns over cost and the construction challenges posed by the mountainous terrain, the AMBO pipeline received a boost from the results of a U.S.-sponsored feasibility study confirming its viability (Perkins, 2000).

### **Constanta to Trieste**

Like Bulgaria, Romania wishes to use its Black Sea ports as starting points for pipelines carrying Russian and Caspian oil to Europe. A pipeline joining Constanta to Trieste has recently generated significant interest. Two routes for this line have been proposed: the Constanta-to-Trieste Pipeline (CTPL) and the Romanian-Italian project for a Southeast European Line (SEEL). The technical specifications for the two planned pipelines are virtually identical, and these plans are certain to be combined into a single project. Several alternative paths exist for this oil transportation corridor, with southern—and shorter—routes passing through the Yugoslav Republic and Croatia toward Slovenia and Italy, and northern ones through Hungary bypassing the Yugoslav Republic and/or Croatia altogether. Croatia is pressing to have the pipeline cross its territory, since Zagreb would like to redirect some of the oil to its Adriatic seaport of Omisalj.<sup>22</sup>

<sup>22</sup>Omisalj is currently an import terminal and serves as the starting point of a pipeline that delivers oil to Central Europe and FRY. Converting this port into an export facility would prompt the Federal Republic of Yugoslavia to consider obtaining oil directly from Russia's Druzhba pipeline (the flow of the pipeline terminating at Omisalj would

Planning for the construction of the CTPL has already begun. In 1998, Italy's ENI signed a protocol with its Romanian counterpart for the construction of a \$1 billion pipeline, to be operational by 2002. The CTPL project also gained U.S. support, after a U.S. Trade and Development Administration-financed study concluded the project would be feasible. The Constanta to Trieste route is the shortest connection for Caspian oil to Western European markets and would leverage Romania's existing oil storage and refining infrastructure (Romania's refining capacity of 34 million tons greatly surpasses domestic consumption) (EIU, 1999-2000c). Moreover, the SEEL and CPTL pipelines would both also serve markets in southeastern and central Europe and allow for a future linkup with the Trans-Alpine oil network in Austria and Bavaria (Beckman, 1999).

### Thessaloniki to Skopje

In May 1999, FYROM government agreed to privatize Skopje's oil refinery, OKTA, granting control of this facility to a consortium led by the Greek state oil company, Hellenic Petroleum. This acquisition was a part of a \$150 million investment program for which the Greek side will build a 220-km pipeline from the port of Thessaloniki in northern Greece to Skopje. The pipeline will have an annual capacity of 2.5 million tons, exceeding FYROM's current demand of 1 million tons a year. There are plans eventually to utilize the excess capacity to pump oil northward to Serbia (EIU, 1999b).

### Policy Implications

Like regional gas infrastructure initiatives, a series of political and economic factors deeply affect the development of the oil pipeline projects described above. Since the demand and supply volumes required to render all of these schemes viable are unlikely, some of the proposed lines will not be constructed. The two Balkan export pipelines from Burgas to Alexandroupolis and Burgas to Vlore have the greatest potential for needless overlap.<sup>23</sup> As a result, first

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have to be reversed, thus making it impossible for the republic to obtain oil from this route). See EIA (1999a).

<sup>23</sup>The CTPL is more complementary, because one of its key purposes is to supply the region with Caspian oil, not solely to export it to Western markets.

movers—those able to secure financial backing and forge the necessary consensus among partners in the least amount of time—will have a significant advantage. At this stage, Burgas to Alexandroupolis appears to be the more precarious route, not because it is intrinsically less viable from an economic standpoint but primarily because of project implementation delays caused by Russian skepticism.

As in other infrastructure sectors, the features and very feasibility of some of the projects outlined here will change to the extent that the Yugoslav Republic becomes integrated into Western reconstruction and financing plans. Given its central location, the Yugoslav Republic should figure prominently as an attractive location for several routes. For instance, the Skopje-Thessaloniki pipeline could be extended northward, and the CTPL could cross northern Serbia, significantly shortening its total length.

## CONCLUSIONS AND OVERALL POLICY IMPLICATIONS

The previous sections have underscored the fact that the infrastructure landscape in southeastern Europe is likely to change significantly in the near to medium term. The implementation of transportation, telecommunications, electricity, natural gas, and oil infrastructure projects will have substantial economic and political effects on the region. These infrastructure issues and schemes will also have significant implications for Western policy as a whole and for Greece as a key actor in southeastern Europe and the eastern Mediterranean.

### Implications for Western Policy

Four key policy implications emerge for the United States, the EU, and other international institutions:

- **The risks of duplication are fairly small and are confined to specific projects.** The only initiatives (from those examined above) with a clear potential for duplication are the Burgas to Alexandroupolis and AMBO pipelines. It is also apparent that not all the gas pipeline projects examined here will ultimately prove to be viable. Blue Stream and the TCP stand out as likely competitors, although it is impossible to predict at this stage

which “constellation” of pipelines will make the transition from the drawing board to full implementation.

At the same time, however, projects in the energy sector, as well as most of those in other infrastructure areas, should not be viewed simply as parts of a zero-sum game. This is also particularly relevant when considering the effects the reintegration of the Yugoslav Republic will have on the calculus of donors and investors. Given its geographic location and the significant damage to its infrastructure during the Kosovo war, the West should give the country a prominent place in its regional reconstruction strategy. Undoubtedly, the features of some projects will be reviewed in light of the regime change in Belgrade. That said, some of the region’s most pressing long-term infrastructure development deficits are outside of Serbia—for instance, transportation routes in Albania, Bulgaria, FYROM, and Romania—and the Yugoslav Republic’s participation in regional projects will not greatly diminish their economic rationale.

- **The role of states in determining southeastern European infrastructure policy will change—and in many ways be weakened—over time.** The fact that governments in the region are heeding EU calls for the gradual liberalization of such sectors as energy and telecommunications will also help limit a “Great Game” approach to infrastructure development. As market forces begin to shape southeastern European infrastructure networks, the role of governments should shift away from setting top-down policy and move toward providing institutional and regulatory frameworks that promote competition and encourage increased investments.<sup>24</sup>
- **Western institutions and investors should make economic return the dominant criterion for allocating resources.** As illustrated above, infrastructure reconstruction efforts are often motivated by reasons other than economic efficiency. While politically popular infrastructure programs may enhance short-

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<sup>24</sup>This shift will not apply to all sectors, however. In fact, some of the infrastructure projects discussed above, such as roads, are unlikely to attract much private-sector interest in the near future. Governments and institutional investors will have to continue filling the financing-and-implementation gap for projects that are not attractive to private-sector firms but that are nonetheless economically beneficial.



term stability, Western countries and institutions should not lose sight of the fact that, in the long run, only high-return infrastructure projects will help economic development and regional cooperation. To be sure, it will be impossible to ignore political considerations when making investment decisions, and it may even be appropriate to support the rare projects whose political or strategic benefits greatly outweigh economic costs. Western donors and recipient countries also need to keep in mind that infrastructure development is, by its very nature, a long-term endeavor and that costs incurred in the short run will often yield benefits several years after project completion.

- **Infrastructure investment, even if well managed, will not suffice to guarantee regional development and stability.** The presence of a robust infrastructure is a necessary but not sufficient condition for sustained growth and integration. Economic development will still depend in large part on macroeconomic policy-making in the countries of southeastern Europe, as well as on the strength of their supporting institutions.

### Implications for Greek Policy

Given its geographic location and regional economic interests, Greece has a particularly strong stake in the development of southeastern European infrastructure networks. Greece is arguably the EU country with the most to gain from the fall of the Milosevic regime. In fact, Athens will now be able to play a key role in the reconstruction of essential infrastructure arteries connecting the country to southeastern Europe, as well as with the rest of the EU. The importance Greece attaches to rebuilding the Yugoslav Republic is reflected in the recent decision to allocate more than half of the five-year regional development aid program to projects in Serbia (*Athens to Vima*, 2000).

At the same time, however, Greek links with other countries will remain important and should not be neglected in future years. In particular,

- **FYROM.** Greece is currently the largest foreign investor in FYROM and the latter's second-largest trade partner; the Kosovo crisis has also made clear the stake Athens shares in the social

and political stability of FYROM. The series of large transportation, energy, and telecommunications infrastructure efforts that will link the two states even closer, coupled with the rising level of Greek investment in the country, should assuage fears that Greek involvement in the region is being threatened by an east-west axis linking FYROM with Bulgaria and Albania. By building robust north-south links with FYROM (as well as Albania), Greece will itself be able to tap into new east-west routes, and use FYROM as a base for expanded commercial activities elsewhere in southeastern Europe.

- **Turkey.** Greece-Turkey linkages are also proliferating in all infrastructure sectors. Once completed, Via Egnatia will offer international-standard motorway access between major Greek cities and Istanbul. The decisions to link electricity grids and eventually to build a shared natural gas pipeline are signs of improving relations between Athens and Ankara and are, to be sure, good politics. Greece should continue to cement ties with Turkey through joint involvement in infrastructure development but should pay attention to the economic logic. Indeed, infrastructure linkages, such as gas pipelines, may not be economically efficient for a number of years. Greco-Turkish infrastructure cooperation could be kept on the rise by the creation of cooperative ventures (in construction, for example) targeting markets in other southeastern European countries. These efforts would reinforce the view that Greece and Turkey need to cooperate to meet regional requirements and capture regional opportunities of joint benefit.
- **Albania.** This country will remain an important focus of Greek involvement because it provides both a new market and an alternative north-south route bypassing Serbia. Athens continues to be attracted to the idea of a new Adriatic transportation corridor from Trieste to Igoumentisa, and Greek involvement in the country's energy market will increase over time. Provided that these ventures are economically justifiable, Greece should encourage them.
- **Italy and Bulgaria.** Greece should continue to diversify its energy access through Bulgaria and Italy, with a keen eye toward the real economic and strategic implications of projects in this area. Italy will continue to be a key country for Greek infrastruc-

ture policy, both as a supplier of gas from North Africa and as a partner in joint ventures focusing on southeastern Europe. Bulgaria is also emerging as a key distributor of energy resources in southeastern Europe and will remain important to Greek companies as long as it supplies the Greek market with natural gas. If developments in the Caspian region make Bosphorous bypass routes feasible and desirable, Greek companies may want to reach a swift agreement with their counterparts in Sofia and Moscow for the implementation of the Burgas-to-Alexandroupolis pipeline. However, the economic and strategic importance of this project should not be exaggerated. Implementation of the rival AMBO pipeline would not greatly compromise Greek interests, and the subsequent loss of transit fees is probably insignificant at an aggregate level.

More broadly, Greek involvement in regional infrastructure development should help Athens play a constructive role, both bilaterally with southeastern European countries and in partnership with Brussels and Washington. In this context, Greece should continue to advocate greater Western attention to—and funding for—the region and its development needs as a means of stabilizing a crisis-prone hinterland.

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**CONCLUSIONS AND POLICY DIRECTIONS**

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The last few years have witnessed a transformation in Greek foreign policy. This transformation has been a response to developments in the international environment, around Greece and further afield. It also reflects changes within Greek society and in the economic and political imperatives of a more European policy. Overall, the demands on Greek policymakers, and those outside the formal policy process who would wish to understand and help shape the debate, have increased substantially. The country's foreign concerns and objectives—never simple—have been further complicated by the need to shape policy, to a greater extent than ever before, in a European and Atlantic context. To be sure, these new dimensions bring considerable advantages and add weight to Greek strategy and diplomacy.

At the same time, the Greek policy debate has become broader in terms of interests and actors. This is especially true in the security field, where “soft” security concerns, including migration and refugee flows, have taken center stage in the national debate. Such issues are now instrumental in Greek relations with neighbors in southeastern Europe and in discussions with the EU. In the “hard” security arena, the traditional concern over territorial defense has been augmented, if not entirely overtaken, by such new military tasks as peacekeeping and peace-support activities. These are now an integral part of Greece's military diplomacy in the Balkans and around the Black Sea. Looking ahead, the proliferation of weapons of mass destruction and ballistic missile systems of ever-increasing range will inevitably exert a heavier influence on Greek strategy and planning. Even if Greece is far from the most likely target of such

systems, their presence will have a profound effect on military balances in the Middle East, the eastern Mediterranean, and Eurasia and on the behavior of allies—developments Greece will be unable to ignore.

In an era of globalization, the private sector and nongovernmental institutions of all sorts are playing more-active roles in the foreign policy debate and as international actors in their own right. Greece is no exception to this trend. Indeed, the private sector, through investment and policy advocacy, has emerged as a vehicle for change in previously troubled relationships—including Greek relations with Turkey and FYROM. Infrastructure projects, including road, rail, ports, energy transport, and telecommunications—will help to shape regional geopolitics from the Adriatic to the Caspian. Most of this development will come from private-sector initiatives, and here, too, Greek companies are poised to play an active role. Very few opportunities of this sort existed during the Cold War. The political changes of the past decade have opened new possibilities and diversified Greece's international engagement. This engagement is also very much in the tradition of Greek involvement in the commercial life of the Mediterranean and of the Black Sea and its hinterlands.

In a broad view of Greece's international position in light of recent developments, four trends stand out. Each affects the geopolitical environment and the Greek role in fundamental ways.

### THE END OF MARGINALIZATION

First, the new environment marks the end of southern European; Mediterranean; and, more specifically, Greek marginalization. In the post-Cold War setting, challenges and opportunities have shifted from the center of Europe to the periphery. As a result, the interests and roles of regional actors are no longer marginal to the European and transatlantic calculus. Successive crises in the Balkans have made clear the extent to which European security is closely tied to developments on or near Greece's borders. The Schengen agreement and the evolution of EU policy on "third pillar" issues have shifted much of the burden of Europe's border-control policies to members on the periphery, including Greece. Moreover, Europe's evolving common foreign and security policy and new defense arrangements will naturally focus on areas of relatively high demand

within Europe's reach—above all southeastern Europe and the Mediterranean. Similar trends are at work within NATO, where a new strategic concept and the potential for further enlargement southward in the Balkans are displacing the traditional marginalization of NATO's Southern Region.

From the perspective of Greek policy, the end of marginalization offers new opportunities to engage the country's European and transatlantic partners in support of Greek interests. Athens will have less difficulty than in the past linking its own geopolitical concerns to those of its allies. On the other hand, Athens will have less scope to pursue narrower national objectives, whether in relation to Turkey, the Balkans, or the Middle East, without reference to European and Western interests.

### THE TRANSFORMATION OF KEY RELATIONSHIPS

Second, the relationships that have defined Greece's external policy since 1945 have changed in fundamental ways. Greece's entry into the EMU has codified the country's European inclination. In many respects, EMU represents the latest development in a process of Europeanization that has accelerated sharply over the past decade. Continued convergence and integration with Europe are now central to the country's internal, as well as external, policy debates. This phenomenon, with all of its stresses, is arguably irreversible; the costs of doing so would be unreasonably high, both economically and politically.

Europeanization has also profoundly affected Greek foreign policy outside Europe. Nowhere is this more evident than in relations with Turkey. Circumstances since 1999, including the much vaunted "earthquake diplomacy," have strongly favored the development of Greek-Turkish détente. But from the perspectives of both Athens and Ankara, Europe is a key variable in this equation. The Helsinki summit, in particular, reflected a strategic decision on the Greek side to place relations with Turkey in a European frame: to encourage the "anchoring" of Turkey and Greek-Turkish relations in European institutions and to enlist the EU in the management of relations with Ankara. The rapprochement with Turkey remains fragile and has yet to address the core issues of Cyprus and the Aegean. Nonetheless, a range of cooperative initiatives has been established, and the con-

stituency for Greek-Turkish détente is substantial on both sides of the Aegean. The stage has been set for the implementation of confidence-building and risk-reduction measures in the security field. At a minimum, the current détente has made it more difficult for dangerous brinkmanship to occur. To be sure, Athens will continue to have serious strategic concerns with regard to Turkey. But confrontation with Ankara can no longer be considered a permanently operating factor in Greek foreign and security policy, and Greece is now a key stakeholder in Turkish stability and prosperity.

The bilateral relationship with the United States has also undergone substantial and positive change. Relations with Washington have been normalized in key respects. Questions of military presence and ideology, key features of the Cold War relationship, are no longer central. For many Greeks, the key question today is not how to get the United States *out* but rather how to keep the United States engaged *in* southeastern Europe and the eastern Mediterranean. This is not to say that the potential for sharp disagreement has evaporated, as the strong public reaction to Washington's strategy during the Kosovo crisis made clear. But today, Greece can advocate a different approach without breaking from the Alliance consensus. From a U.S. perspective, Greece, by virtue of its geographic and political position, has emerged as a key interlocutor and partner in southeastern Europe.

U.S. perceptions of and policy toward Greece have also become less distinctive and contentious. Increasingly, Greece is seen as part of the European complex, and policy toward Greece has become a more-normal subset of policy toward Europe as a whole. A more European orientation in Athens can actually encourage a more-cooperative bilateral relationship, especially in the security field. Arguably, Greece was able to participate in the Gulf War coalition and stay within the NATO consensus on Kosovo precisely because there was a European context supporting these policies. As Athens, along with the rest of southern Europe, looks more firmly toward Brussels, this does not necessarily mean a more difficult or less cooperative relationship with Washington. It does, however, suggest that the health of Greek-U.S. relations has become more dependent on the evolution of transatlantic relations as a whole. These will undoubtedly face new challenges in the coming years, and some of the key tests are likely to come in Greece's neighborhood.

## NEW REGIONAL DYNAMICS

Third, Greece faces new challenges and opportunities emanating from the Balkans, the Middle East, and Eurasia. The tremendous improvement in relations between Athens and FYROM and the change of leadership in Belgrade are transforming developments in the regional equation. Both developments allow Greece and its partners to focus more effectively on the demands of reconstruction and political stability. The progressive reintegration of Serbia into the international system offers special opportunities for Greek diplomacy, given Greece's credibility in Belgrade. Nonetheless, the smooth political evolution of Serbia and Montenegro are far from assured. Indeed, the challenges are even more pronounced for Kosovo, Albania, and FYROM. The stability and development of the latter two will be a special concern for Athens, given the close link to problems of migration, cross-border crime, and potential spillovers of political violence.

More broadly, southeastern Europe will face the difficult task of reversing the corrosive effects of a decade of crisis and isolation on regional economies and societies. New infrastructure projects are likely to play a key role in this regard by creating the conditions for regional renewal and as a hedge against further disruption. Western and regional strategists have tended to describe the competition among various regional infrastructure projects as a form of great game in which there will be clear geopolitical winners and losers. The utility of this model is questionable even in the high stakes context of alternative routes for Caspian oil and gas. Around the Black Sea and in southeastern Europe, in particular, the integrative and reinsurance effects of a more-complex infrastructure network are more important.

Notwithstanding geopolitical debates, decisions on alternative road, pipeline, electric, and telecommunications projects will be made, above all, on commercial grounds. But the net effect of the many projects in these areas will be substantial and beneficial for Greece and its neighbors. New regional links will inevitably foster new—and stabilizing—patterns of interdependence. The uncertain political and security conditions prevailing from the Adriatic to Central Asia also suggest the benefits of a more diverse and redundant infrastructure. The massive economic disruption the closure of Yugoslav road and rail routes caused underscores the importance of alternative



lines of communication between Western Europe, the Balkans, and Eurasia.

In the Middle East and the Mediterranean, renewed Arab-Israeli frictions have clouded the outlook. Unfortunately, the derailment of the Middle East peace process comes as Greece and its European partners had begun to develop a more-active policy of engagement on the southern periphery. Greece has important stakes in this context, from access to energy and unimpeded transit through the Suez Canal to forestalling spillovers of terrorism and political violence. Conditions of crisis and conflict in the Middle East can also spur conventional and unconventional arms procurement around the Gulf and the eastern Mediterranean, with consequences for regional balances in the Aegean and elsewhere. Athens is exposed to the consequences of continued deterioration in Arab-Israeli and, more broadly, north-south security relations.

## GLOBALIZATION AND TRANSREGIONAL ISSUES

Fourth, Greece is strongly affected by the phenomenon of globalization and the rise of issues that cut across traditional regional boundaries. By many important measures, Greece is a highly globalized country. The Greek diaspora and Greece's role in international shipping have encouraged a tradition of worldwide ties. Migration, European integration, and the information revolution have facilitated the spread of tastes and expectations that differ little from those in Paris or Los Angeles. Without disregarding the dilemmas of identity and competitiveness that globalization poses for Greek society, it is likely that Greece's geopolitical position will be more strongly affected by the challenges globalization poses to societies in adjacent regions, in southeastern Europe and the Middle East, that are less well placed to adjust and adapt. In the Balkans, Greece itself is an important conduit for globalization in the form of international investment, information flows, and links to Western institutions. The sort of soft power assets that Greece possesses are well suited to this environment.

A key hallmark of the geopolitical environment Greece faces is its transregional nature. Migration toward Europe, spillovers of political movements, far-reaching infrastructure schemes, and the growing reach of modern weaponry underline the increasing interdepen-

dence of previously separate regions—Europe, the Middle East, and Eurasia. Greece, along with Turkey, is at the center of this phenomenon. This also suggests that the notion of Greece as a transregional actor will be central to the country's future geopolitical role.

### GREECE'S CHANGING STRATEGIC CULTURE

In terms of grand strategy—the level of strategy that aims to integrate political, economic, and security objectives—Greece has made some firm choices over the past decade. This does not foreclose alternative approaches, but the price of changing course would be high. In brief, Greece has opted for Europe, not merely in the sense of closer integration but also in terms of an organizing principle for the country's foreign and security policy. As noted throughout this report, Europe is now the lens through which both transatlantic relations and key regional relationships—including the relationship with Turkey—are viewed. The key question is no longer whether the European option is appropriate but rather which policies are to be pursued within this European frame and the implications of varying European futures.

There is a continuing tension in the Greek foreign debate between a liberal, internationalist outlook—as embodied in the European-oriented approach—and a more narrowly drawn “realist” approach that takes a sharper view of Greek national interests.<sup>1</sup> In reality, these visions differ more in style than substance, to the extent that a multilateral, European approach can also bolster the Greek position on issues of national concern, including sensitive questions in the Balkans and the Aegean. Across a range of critical questions, it has become difficult or impossible for Greece to pursue an effective foreign policy unilaterally. Greece is not alone in this dilemma. The success of Greek policy toward southeastern Europe is now closely tied to the effectiveness of EU, Organization for Security and Cooperation in Europe, and NATO policies and initiatives in the region (e.g., the Stability Pact). Similarly, the prospects for Greece's new strategy of engagement toward Ankara now depend critically on the overall health of EU-Turkey relations. Athens can play a leading role in the evolution of both sets of policies but cannot necessarily con-

<sup>1</sup>I am grateful to Dimitris Keridis of the Kokkalis Program at Harvard University for this formulation.

trol the outcome. There is therefore a need to consider ways of hedging against the possibility of failure in key multilateral approaches.

The outright renationalization of Greek policy would, however, impose considerable costs. It would mean returning to a more contentious relationship with neighbors and, above all, with Brussels. It would also mean returning to more-difficult bilateral relations with key European allies and with the United States. In adopting a more-modern, diffuse concept of national sovereignty, Greece has, along with the rest of Mediterranean Europe, gained considerable weight in addressing demanding political, economic, and security challenges. As elsewhere in southern Europe, one consequence has been the tentative emergence of a less nationalistic, more internationalist strategic culture. As Greece has enlisted Europe and the United States in pursuit of its regional objectives, Athens has acquired a stronger stake in the effectiveness of European and transatlantic institutions.

### POLICY DIRECTIONS FOR GREECE AND ITS PARTNERS

Our analysis suggests a number of policy priorities and directions for Athens and its European and Atlantic partners. These respond to trends in the international environment and the need to reinforce some policy approaches already in place:

- **Consolidate and deepen Greece's European integration.** Making the European "option" more effective is a key enabling objective for Greek policy across a range of issues. Turmoil in relations between Athens and Brussels would undermine the advantages Greece has gained through the pursuit of a more European approach and would complicate Greece's management of regional challenges, whether in the Balkans or across the Aegean. In this context, Greece should strongly support the EU (and NATO) membership aspirations of Balkan neighbors, as well as the development of a more capable European defense capability, relevant to Greek security concerns.
- **Give priority to the reconstruction and stabilization of southeastern Europe.** Developments in this region will directly affect Greek prosperity and security over the next decade. Athens can and should be a leading advocate for the continued engagement

of the EU—and the United States. The risk of a declining U.S. role in the Balkans should be of special concern to Greece, given the existence of unresolved security issues in Kosovo, Albania, FYROM, and elsewhere to Greece's north. Greece and its partners should recognize that key energy and nonenergy infrastructure projects will be driven largely by private-sector initiatives and commercial requirements, rather than by national geopolitical "visions." Greece should work closely with other EU members with a strong interest in Balkan stability, including Austria and Italy, to help forge a more coherent European policy toward the region.

- **Reinforce Greek-Turkish détente.** The tentative Greek-Turkish détente offers a critical opportunity to enhance Greece's security and to reinforce the country's regional position. The rapprochement has a sound strategic rationale on all sides, but the new relationship is fragile. As noted above, it is highly dependent on the state of Turkish-EU relations and has not yet addressed the core issues of Cyprus and the Aegean. Greece should encourage the EU to give sustained priority to Turkey's convergence with Europe and should support the early opening of EU accession talks, consistent with the "Copenhagen criteria." Turkey's economic travails threaten these objectives, and Athens should give full support to European and international efforts aimed at supporting Turkish recovery.
- **Strengthen the national bases for Greek-Turkish rapprochement.** To hedge against the vagaries of relations between Ankara and Brussels and to ensure that there is no return to dangerous brinkmanship, Athens should work toward the rapid implementation of political and military confidence-building measures that have already been developed. As a practical matter, cooperation between the Greek and Turkish private sectors and non-governmental institutions should be encouraged as a means of solidifying national constituencies for improved relations. Greece should also consider bolstering the national capacity for the study and analysis of Turkish affairs.
- **Greece can and should play a more active role in the eastern Mediterranean and the Middle East.** Greece has important stakes in the future of these areas, but the Greek role here has been relatively underdeveloped. Athens can play an especially

important role in any new EU approaches to the Middle East peace process. Greece should also explore with regional partners—in particular, Turkey and Israel—possible new forms of regional security cooperation. These may be pursued either in the context of EU and NATO Mediterranean initiatives or outside these frameworks.

- **Refashion the bilateral relationship between Greece and the United States to address regional—and transregional—issues.** Joint planning and policy initiatives should focus on Balkan stability and reconstruction, Aegean risk reduction, soft and hard security cooperation in the eastern Mediterranean—where Greece should be accorded a leading role—and NATO's continued adaptation to meet risks that cut across European, Middle Eastern, and Mediterranean security. The true health of the bilateral relationship will be measured by policies that go beyond traditional areas (e.g., Cyprus diplomacy, arms transfers). For Athens, the most serious questions will involve the degree and character of U.S. engagement in Europe and on its periphery. Greece, with its growing political and economic ties in adjacent regions and as a European actor, can be a key partner for the United States in stabilizing and modernizing societies in transition in the Balkans, around the Black Sea, and in the Middle East.

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## GREECE'S NEW GEOPOLITICS

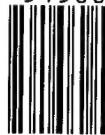
GREECE HAS BEEN PROFOUNDLY AFFECTED by recent changes in the international environment, on its borders, and within Greek society. Long-standing assumptions about Greek interests and Greece's role have fallen away to be supplanted by new approaches. As the country has become progressively more modern and more European in outlook, it has developed an increasingly sophisticated international policy. The strategic environment Greece faces has also evolved, presenting new challenges and opportunities in relations with Europe, the United States, and neighboring countries. Many of the new issues on the Greek agenda cross traditional regional boundaries and underscore the opportunity for Greece to play a transregional role, looking outward from Europe to the Mediterranean, Eurasia, and the Middle East.

The authors of *Greece's New Geopolitics* explore this new environment, paying special attention to the implications for southeastern Europe and transatlantic relations. They explore options for Greek strategy and offer some new directions for policy in Greece and on both sides of the Atlantic.

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